

Official Statement Dated June 23, 2004

NEW ISSUE - Book Entry Only

Moody's Rating: MIG-1
Standard & Poor's Rating: SP-1+
Fitch Rating: F1+
(See "Ratings" herein)

In the opinion of Moore Smith Buxton & Turcke, Chartered, bond counsel, under currently existing laws, regulations, decisions and interpretations and assuming, among other things, compliance with certain covenants, interest on the Notes is excluded from gross income subject to federal income taxation under Section 103(a) of the Internal Revenue Code of 1986, but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations. The Notes are not private activity bonds. Bond counsel is also of the opinion that, under the laws of the State of Idaho, as enacted and construed on the date hereof, interest on the Notes is excluded from gross income for purposes of income taxation by the State of Idaho, to the extent that such interest is excluded from gross income for federal income tax purposes. Bond counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "TAX EXEMPTION" herein.



\$230,000,000
STATE OF IDAHO
TAX ANTICIPATION NOTES, SERIES 2004

Dated: Date of Delivery

Due: June 30, 2005

Interest Rate 3.00%
Priced to Yield 1.58%

The Notes initially will be issued in registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchases of beneficial interests in the Notes will be made in book-entry form in denominations of \$5,000, or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Notes purchased. The Notes will be dated the date of delivery, and will not be subject to redemption prior to maturity. Principal and interest will be payable when due to DTC or its nominee by U.S. Bank National Association, Salt Lake City, Utah, as Escrow/Paying Agent as described under "Description of the Notes--Book-Entry Only System."

Principal thereof and interest on the Notes are payable from General Tax Revenues (as defined herein) collected by the State during the fourth quarter of the 2005 fiscal year, sufficient to pay principal thereof and interest thereon as the same become due. In addition, the Notes are secured by the faith and credit of the State of Idaho.

The Notes are offered when, as and if issued and received by the Underwriter, subject to the approval of validity and legality by Moore Smith Buxton & Turcke, Chartered, Boise, Idaho, bond counsel, and to certain other conditions. The Notes will be available for delivery to DTC in New York, New York, on or about July 1, 2004.

ZIONS FIRST NATIONAL BANK

BANC OF AMERICA SECURITIES LLC

STATE OFFICIALS

**The Honorable Ron G. Crane
STATE TREASURER**

The Honorable Dirk Kempthorne
The Honorable Jim Risch
The Honorable Ben Ysursa
The Honorable Keith Johnson
The Honorable Lawrence Wasden
The Honorable Marilyn Howard

Governor
Lieutenant Governor
Secretary of State
State Controller
Attorney General
Superintendent of Public Instruction

FINANCIAL ADVISOR

C² FINANCIAL INC.

BOND COUNSEL

MOORE SMITH BUXTON & TURCKE, CHARTERED

UNDERWRITERS

ZIONS FIRST NATIONAL BANK
BANC OF AMERICA SECURITIES LLC

ESCROW/PAYING AGENT

U.S. BANK NATIONAL ASSOCIATION

Treasurer's Letter

No person has been authorized by the State of Idaho to give any information or to make any representations not contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information, estimates and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Idaho since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME.

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SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT, AND THE OFFERING OF THE STATE OF IDAHO TAX ANTICIPATION NOTES, SERIES 2004, REFERRED TO HEREIN TO POTENTIAL PURCHASERS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT.

Description of the Notes

The Notes will be issued in the aggregate principal amount of \$230,000,000. The Notes will be dated the date of delivery (which is anticipated to be approximately July 1, 2004), mature on June 30, 2005, and are not subject to redemption prior to maturity. It is anticipated that the Notes will be issued in book-entry-only form, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchases of beneficial interests in the Notes will be made in book-entry-only form in the denomination of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Notes. The beneficial ownership of interests in the Notes is expected to be shown on, and the transfer of such ownership is expected to be effected through, records maintained by DTC and the Participants and Indirect Participants which are related to entries on the book-entry-only system of DTC. If the book-entry-only system is discontinued, the Notes will be issued to the purchasers thereof in the form of bearer certificates.

Purpose of the Notes

The Notes are being issued to fund the State of Idaho's anticipated cash flow shortfalls during the fiscal year commencing July 1, 2004, and ending on June 30, 2005 (the "2005 fiscal year"). Proceeds of the sale of the Notes will be deposited in the General Fund of the State and will be used to alleviate temporary cash flow shortfalls and to finance the State of Idaho's daily operations in anticipation of the receipt of general tax revenues of the State to be collected during the fourth quarter of the 2005 fiscal year.

Authority for the Notes

The Notes will be issued pursuant to Article VII, Section 11, and Article VIII, Section 1, of the Constitution of the State of Idaho, and Chapter 32, Title 63, Idaho Code, and pursuant to a Resolution of the Board of Examiners of the State of Idaho adopted on March 9, 2004, and a Plan of Financing approved by the Treasurer of the State of Idaho.

Security and Sources of Payment for the Notes

The Notes are secured by (i) an irrevocable pledge of so much of the income and revenues from taxes, whether specific, ad valorem, excise, income, franchise, or license, to be received by the State during the fourth quarter of the 2005 fiscal year as may be necessary to pay the principal of and interest on the Notes (the State estimates it will receive \$639,684,000 during the fourth quarter of the 2005 fiscal year); (ii) to the extent necessary, from other borrowable resources of the State (described in the Official Statement); and (iii) the solemn pledge of the faith and credit of the State.

Deposit of Pledged Monies for the Notes

A "Tax Anticipation Notes, Series 2004, Note Payment Account" (the "Note Payment Account") will be created in the "Tax Anticipation Note Redemption Fund" created by Section 63-3203, Idaho Code, into which will be deposited as received the revenues described above until the monies therein and investment earnings earned or to be earned thereon shall be fully sufficient to pay the principal of and interest on the Notes at maturity. Any monies so deposited into the Note Payment Account are irrevocably appropriated and set aside solely for payment of principal of and interest on the Notes.

Tax Exemption

In the opinion of Moore Smith Buxton & Turcke, Chartered, bond counsel, under currently existing laws, regulations, decisions and interpretations and assuming, among other things, compliance with certain covenants, interest on the Notes is excluded from gross income subject to federal income taxation under Section 103(a) of the Internal Revenue Code of 1986, but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations. The Notes are not private activity bonds. Bond counsel is also of the opinion that, under the laws of the State of Idaho, as enacted and construed on the date hereof, interest on the Notes is excluded from gross income for purposes of income taxation by the State of Idaho, to the extent that such interest is excluded from gross income for federal income tax purposes. Bond counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "TAX EXEMPTION" herein.

OFFICIAL STATEMENT

\$230,000,000

STATE OF IDAHO

TAX ANTICIPATION NOTES, SERIES 2004

INTRODUCTION

This Official Statement of the State of Idaho (the "State") presents certain information in connection with the issuance of \$230,000,000 aggregate principal amount of Tax Anticipation Notes, Series 2004 (the "Notes"). None of the references to or summaries of the laws of the State or of any documents referred to in this Official Statement purport to be complete, and all such references are qualified in their entirety by reference to the complete provisions thereof.

THE NOTES

Description of the Notes

The Notes are being issued to fund the State's anticipated cash flow shortfalls during the fiscal year ending June 30, 2005 (the "2005 fiscal year"). The proceeds of the sale of the Notes will be deposited in the General Fund of the State (the "General Fund") and will be used to alleviate temporary cash flow shortfalls and to finance the State's daily operations in anticipation of certain tax revenues (the "General Tax Revenues") of the State to be collected during the fourth quarter of the 2005 fiscal year ending June 30, 2005 (see "GENERAL TAX REVENUES"). General Tax Revenues consist primarily of Individual Income Taxes, Corporate Income Taxes, and Sales Tax. The Notes are payable from and secured by: (i) an irrevocable pledge of so much of the General Tax Revenues to be received during the fourth quarter of the 2005 fiscal year as may be necessary to pay the principal of and interest on the Notes; (ii) the State Treasurer's covenant to transfer, if necessary, any monies available (the "Borrowable Cash Resources" described hereafter) to the Note Payment Account established for the payment of the Notes, in an amount required to fully pay the principal of and interest on the Notes at maturity; and (iii) the solemn pledge of the faith and credit of the State for the payment in full of the principal of and interest on the Notes.

The Notes will be dated the date of delivery, and will mature June 30, 2005. The Notes will bear interest at 3.00% per annum, payable at maturity, calculated on the basis of a 30-day month, 360-day year. The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Notes. The ownership of not more than two fully registered global Notes for the entire aggregate principal amount of the Notes will be registered in the name of Cede & Co. as nominee of DTC. The Notes are not subject to redemption prior to maturity. Principal of and interest on the Notes will be payable at maturity by U.S. Bank National Association, Salt Lake City, Utah, Paying Agent, to DTC or its nominee in lawful money of the United States for distribution to the Participants, Indirect Participants and Beneficial Owners.

Book-Entry-Only System

The following information has been provided by DTC. The State makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Participants (as hereinafter defined).

The Depository Trust Company, (“DTC”), New York, New York, will act as securities depository for the Notes. The Notes will be initially issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Initially, not more than two fully-registered Note certificates will be issued in the aggregate principal amount of the Notes and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under New York Banking Law, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, LLC., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holding from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interest in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of the Notes within an Issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), issuer or agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as note depository with respect to the Notes at any time by giving reasonable notice to the Issuer or Agent. Under such circumstances, in the event that a successor note depository is not obtained, Note certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Note depository). In that event, Note certificates will be printed and delivered.

With respect to Notes registered on the Note Register in the name of Cede & Co., as nominee of DTC, the Issuer or Agent shall have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Notes with respect to (i) the accuracy of the records of DTC, Cede & Co., or any Participant with respect to any ownership interest in the Notes; (ii) the delivery to any Participant or any

other person, other than a noteholder as shown on the Note Register, of any notice with respect to the Notes, including any notice of redemption; (iii) the payment to any Participant or any other person, other than a noteholder as shown on the Note Register, of any amount with respect to principal of, premium, if any, or interest on the Notes; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Notes; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The Issuer or Agent may treat and consider Cede & Co., in whose name each Note is registered on the Note Register, as the holder and absolute owner of such Note for the purpose of payment of principal and interest, for the purpose of giving notices of redemption and other matters with respect to such Note, for the purpose of registering transfers with respect to such Note, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall include the person for whom the Participant acquires an interest in the Notes.

Authorization

The Notes are being issued pursuant to Article VII, Section 11, and Article VIII, Section 1, of the Constitution of the State of Idaho (the "Constitution"), and Chapter 32, Title 63, of the Idaho Code (the "Act"), and pursuant to a Resolution of the Board of Examiners of the State of Idaho adopted on March 9, 2004, and a Plan of Financing approved by the Treasurer of the State of Idaho.

The Act allows the State Treasurer, with approval of the State Board of Examiners, a constitutionally established board comprised of the Governor, the Secretary of State and the Attorney General, with the State Controller as ex officio Secretary (the "Board"), to borrow monies in anticipation of General Tax Revenues in a principal sum not to exceed 75% of the income or revenue from such taxes as the State reasonably anticipates to be collected during the fiscal year. The Board has approved, by written resolution, adopted on March 9, 2004, such borrowings during the 2005 fiscal year in an amount not to exceed \$1,536,862,500. General Tax Revenues anticipated to be collected during the 2005 fiscal year are expected to be not less than \$2,049,150,000 thereby imposing a limit of \$1,536,862,500 on such borrowings for the 2005 fiscal year.

Pursuant to the Act, all Notes issued by the State must mature no later than the end of the then current fiscal year. The State does not currently plan to issue additional External Notes during the 2005 fiscal year, but reserves the right to do so (see "Internal and External Notes").

The Plan of Financing (see "Appendix B"), adopted by the State Treasurer, calls for the issuance of \$230,000,000 Series 2004 Notes in anticipation of the income and revenues from taxes to be received during the fourth quarter of the 2005 fiscal year (April, May and June 2005). These monies may include specific, ad valorem, excise, income, franchise or license revenues. The State anticipates receiving a total of \$639,684,000 in the fourth quarter of the 2005 fiscal year. The \$230,000,000 in Notes to be issued is equal to 36% of anticipated 2005 fiscal year fourth quarter revenues and is within the 75% issuance test as set forth in the Act. Set forth in Table 1 is a description of the specific revenue and amounts that the State estimates will be received in the fourth quarter of the 2005 fiscal year (see "Security and Source of Payment"). The revenues anticipated for the 2005 fiscal year are shown on a monthly basis in Table 4 and on a quarterly basis in Table 5. See General Tax Revenues herein.

Use of Proceeds

Timing differences between revenue collections and disbursements have caused the State to engage in interfund borrowing to fund General Fund expenditures (see "Internal and External Notes"). The State Treasurer has determined to issue the Notes to meet the anticipated cash flow requirements for the 2005 fiscal year resulting from the imbalance in timing between receipts and expenditures.

The State's major General Fund revenue sources include individual income tax, sales tax and corporate income tax. Together, these three categories comprise 94.49% of total General Fund revenues. General Fund revenues are received in relatively uneven amounts throughout the fiscal year because of various factors regarding the timing of individual income tax collections and refunds, large sales tax receipts in January as a result of holiday shopping, and quarterly collections of corporate income tax. As a result, the State anticipates that it will receive 47.58% of General Fund revenues in the first six months of the 2005 fiscal year. However, disbursements during the same period account for 57.84% of total expenditures.

The State's single largest item of expenditure is for public school aid which totals \$964.7 million, or approximately 46.05% of spending. The school aid payments are disbursed in eight payments, four of which occur in the first five months of the fiscal year for a total of \$545.6 million, or 56.55% of total school aid payments. These payments are made directly to the school districts and in the 2005 fiscal year are currently scheduled as follows:

<u>Month</u>	<u>Amount</u>
July 2004	\$ 29,696,400
August 2004	172,064,520
October 2004	171,752,020
November 2004	172,064,520
December 2004	37,500,000
February 2005	172,064,500
May 2005	172,064,500
<u>June 2005</u>	<u>37,500,000</u>
TOTAL	\$964,706,500

Health and Welfare expenditures, the second largest single expenditure item, totals \$407.6 million, or 19.45% of the budget. The third largest expenditure item is aid to higher education, for a total of \$361.6 million which is 17.26% of the total 2005 fiscal year budget (see Table 9 - General Fund Summary of the 2005 Fiscal Year Budget).

Proceeds received by the State from the sale of the Notes will be deposited in the General Fund and used to meet expenses required to be paid from the General Fund during the 2005 fiscal year.

The State has covenanted to comply with the provisions of the Internal Revenue Code of 1986 (the "Code") which are necessary for interest paid on the Notes to be excluded from gross income for purposes of federal income taxation. The State has projected that the cumulative cash flow deficit to be financed by the Notes will exceed 90% of the proceeds of the Notes within six months of the date of the Notes. In the event that the gross proceeds of the Notes are not expended (within the meaning of Section 148(f)(4)(B) of the Code) within six months of the date

of issuance of the Notes, the State will cause to be rebated to the United States an amount equal to the excess earnings on all non-purpose investments, if any, over the amount which would have been earned if such non-purpose investments were invested at a rate equal to the yield on the Notes, plus any income attributable to such excess.

Security and Sources of Payment

Each Note when duly issued and paid for will constitute a valid and binding obligation of the State of Idaho. The faith and credit of the State of Idaho are solemnly pledged for the payment of the Notes.

There is established in the "Tax Anticipation Note Redemption Fund" created by Section 63-3203, Idaho Code, a special fund and account known as the "Tax Anticipation Notes, Series 2004, Note Payment Account" (the "Note Payment Account"). The Note Payment Account shall be held and invested at the direction of the State Treasurer by U.S. Bank National Association, Salt Lake City, Utah, as escrow agent (the "Escrow Agent"), pursuant to the provisions of an escrow agreement. Monies in the Note Payment Account will be invested in direct obligations of the Federal Government and in certain fully collateralized investments permitted under Section 67-1210, Idaho Code. The Treasurer has covenanted to invest all monies in the Note Payment Account in securities that mature no later than June 30, 2005. The Treasurer also has covenanted not to invest monies in the Note Payment Account in debt obligations of the State, its political subdivisions, or taxing districts or authorities.

In accordance with the Act, the Notes are payable from pledged fourth quarter general tax revenues and, to the extent necessary, from other borrowable resources of the State. All income and revenues from the taxes collected during the fourth quarter of the 2005 fiscal year (April, May and June 2005) shall be deposited into the Note Payment Account as received until the monies therein together with investment earnings earned or to be earned thereon shall be sufficient to pay principal of and interest on the Notes at maturity (see "Table 4 - State of Idaho Projected General Fund Cash Flow for the Fiscal Year Ending June 30, 2005" and "General Tax Revenues"). The State Treasurer may, but is not required to by the Plan of Financing, deposit any income and revenues from taxes received prior to the fourth quarter of the 2005 fiscal year into the Note Payment Account, and any monies so deposited into the Note Payment Account are irrevocably appropriated and set aside solely for payment of principal of and interest on the Notes. The State has projected the receipt of the following revenues to pay principal of and interest on the Notes.

The State Treasurer has covenanted that, in the event there are not on deposit in the Note Payment Account on or before June 30, 2005, tax revenues, together with investment earnings thereon, fully sufficient to pay the principal of and interest on the Notes at maturity, then the State Treasurer will borrow from other funds under the control of the State Treasurer (see "Borrowable Cash Resources"), subject to the requirement that such amounts be repaid when General Fund monies are available or take any or all other legally available actions to cause to be deposited in the Note Payment Account amounts sufficient to pay the principal of and interest on the Notes at maturity. The FY 2005 fourth quarter revenues of \$639.7 million provide 2.78 to 1 coverage for the Notes. Borrowable Cash Resources of \$1.864 billion provide 8.11 to 1 in additional coverage for the Notes.

Fourth Quarter Revenues

TABLE 1
Estimated Fourth Quarter Revenues By Source
For the Fiscal Year Ending June 30, 2005
(000's omitted)

	APRIL	MAY	JUNE	TOTAL
Individual Income Tax	\$210,679	\$34,969	\$55,912	\$301,560
Corporate Income Tax	26,631	5,774	17,451	49,856
Sales Tax	74,939	73,668	78,845	227,452
Product Taxes	1,797	1,806	1,950	5,553
Miscellaneous Revenues	<u>1,502</u>	<u>2,286</u>	<u>51,475</u>	<u>55,263</u>
Total Tax Revenues	\$315,548	\$118,503	\$205,633	\$639,684

Borrowable Cash Resources

The State Treasurer, pursuant to Section 67-1212, Idaho Code, is authorized to engage in short-term borrowings from cash balances in other funds in the State Treasury as identified in Table 7 to meet cash flow shortfalls in the General Fund, subject to the requirement that such amounts be repaid when General Fund monies are available. In the 2005 fiscal year, cash balances in the various funds maintained in the State Treasury are estimated to be \$1.864 billion at June 30, 2005. Set forth in Tables 6 and 7 are the actual internal cash borrowing resources available to the State Treasurer for the 2000-2004 (estimated for May and June, 2004) fiscal years and the estimated internal cash borrowing resources available for the 2005 fiscal year.

In prior years, the balance available at year-end in other funds controlled by the State Treasurer has been: estimated for the 2005 fiscal year \$1.864 billion; 2004 fiscal year \$1.911 billion; 2003 fiscal year \$1.706 billion; 2002 fiscal year \$1.899 billion; 2001 fiscal year \$1.754 billion; and 2000 fiscal year \$1.416 billion.

In addition to the cash balances listed above the State has funds invested in securities which are valued at \$2.322 billion as of April 30, 2004.

Authorized Investments

State law and the Treasurer's Investment Policy require that Note proceeds be invested in direct obligations of the Federal Government, FDIC insured certificates of deposit from banks located in the State, collateralized repurchase agreements or other investment instruments as specified in Section 67-1210 of the Idaho Code. The average maturity of the State's investment portfolio was 497 days at April 2, 2004.

Internal and External Notes

If the General Fund cash flow shortages exist for more than 30 days, the State Treasurer issues a tax anticipation note to correct the shortfall. The State Treasurer has issued internal tax

anticipation notes which are notes issued by the General Fund to borrow monies from other available State funds or accounts, and which are subject to the requirement that such amounts be repaid when General Fund monies are available. In each Fiscal Year from 1996 through 1999 the State issued one or two internal notes. These notes were outstanding for periods of 12-66 days. They were all repaid by June 30 of the respective years. No internal notes were issued in Fiscal Years 2000 and 2001. For Fiscal Year 2002 the State issued an internal note for \$80,000,000 on March 22, 2002 which was repaid on June 28, 2002. For Fiscal Year 2003 the State issued an internal note for \$130,000,000 on May 13, 2003 which was repaid on June 26, 2003. The State does not anticipate issuing any internal notes for Fiscal Year 2004. In the past ten fiscal years the State Treasurer has issued external Tax Anticipation Notes (the "External Notes") which were sold in the open market. Table 2 sets forth the External Notes issued by the State Treasurer for the past ten fiscal years.

TABLE 2
STATE OF IDAHO
EXTERNAL NOTES
Fiscal Years 1995-2004

FISCAL YEAR	EXTERNAL NOTES
1995	\$180,000,000
1996	200,000,000
1997	220,000,000
1998	300,000,000
1999	300,000,000
2000	300,000,000
2001	200,000,000
2002	250,000,000
2003	350,000,000
2004	375,000,000

Source: Idaho State Treasurer

General Fund Cash Flow

The tables set forth on the following pages present the actual to-date and projected cash flow of the General Fund for May and June of the 2004 fiscal year and the projected cash flow for the 2004 fiscal year by major categories of receipts and disbursements. The 2005 fiscal year cash flow table evidences that all proceeds of the Notes are expected to have been expended within six months of their receipt. The cash flow tables should be read in conjunction with other information concerning the 2005 fiscal year budget. Certain assumptions regarding the 2005 fiscal year cash flow statements are set forth below and on the page following Table 4 (see "Assumptions Underlying The Monthly Allocation of 2005 Fiscal Year General Fund Disbursements").

Series 2003 Notes

The State issued \$375 million in Tax Anticipation Notes, Series 2003 (the "2003 Notes"), on July 1, 2003, which mature on June 30, 2004.

The 2003 Notes were issued in anticipation of the income and revenues and taxes to be received by the General Fund during the fourth quarter of the 2004 fiscal year. In accordance with the Act, all income and revenues from the taxes collected during the fourth quarter of the 2004 fiscal year shall be deposited into the Note Payment Account as received until the monies therein together with investment earnings shall be sufficient to pay principal and interest on the Notes at maturity.

Sufficient monies to redeem the Series 2003 Notes with full payment of interest at maturity have been deposited into the Note Payment Account held by the Escrow Agent. The State Treasurer deposited into the Note Payment Account by May 14, 2004 a total of \$382,479,167. These monies will be transferred to the paying agent on June 30, 2004, for payment of the Series 2003 Notes.

Fiscal Year 2005 Cash Flow Deficit

The 2005 fiscal year General Fund cash flow (before borrowing) is estimated to have a negative balance at the end of the months of July through March and May with the November month end cash deficit estimated to be \$186,696,000. (See Table 4 -"General Fund Cash Flow.") However, each month's mid-month cash deficit is estimated to be greater than the end-of-the-month deficit balance. This situation occurs because only approximately 20% of the month's revenues are received during the first two weeks while, on average, 80% of the month's expenditures occur during the same period. The majority of taxes are received during the second half of the month because of statutorily established dates for tax payments. A primary factor in the heavy percentage of first half expenditures are the required dates for General Fund transfers to the public schools. The mid-month deficit projected for November for the 2005 fiscal year is \$268,526,000 occurring on November 15, 2004.

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Table 3

Table 4

ASSUMPTIONS UNDERLYING THE MONTHLY ALLOCATION OF 2004 FISCAL YEAR GENERAL FUND DISBURSEMENTS

The 2005 fiscal year General Fund disbursements as shown on Table 4 are classified as Personnel Costs, Operating Costs, Capital Outlay, Trustee & Benefit Payments, Operating Transfers - Public Schools and Operating Transfers - All Other. The total amount allocated to each classification was determined by consolidating all the 2005 fiscal year appropriations. Once the total classifications were determined, the monthly allocations were made in the following manner:

Personnel Costs

The total personnel cost appropriation was based on the average of the five previous fiscal years with those months with three paydays assigned to the month in which those pay dates fell.

Operating Costs, Capital Outlay, Trustee and Benefit Payments

These costs were allocated on the basis of the average of the five previous fiscal years' monthly expenditure pattern.

Operating Transfers - Public Schools

Public School aid payments were allocated to the months in which the payments are to be made per Idaho Code (see "Use of Proceeds").

Operating Transfers - All Other

The agencies receiving authority to transfer funds from the General Fund were consulted as to timing of transfers.

Interest Expense on Tax Anticipation Notes

Since the decision to issue or not to issue tax anticipation notes (TANs) is made subsequent to the legislative session, legislative revenue estimates do not include interest earnings on unused TAN proceeds, nor do expenditure estimates include the related interest expense. As indicated in Table 3, interest expense on the Series 2003 Notes was \$7,479,167. Interest expense on the Series 2004 Notes will be \$6,880,833. However, since the 2005 fiscal year legislative revenue estimate does not include a provision for interest earnings on the Notes, TAN interest revenues and expenses have been netted to zero on Table 4.

The estimates of amounts and timing for receipts and disbursements for the 2005 fiscal year cash flow statement are based on certain assumptions and should not be construed as statements of fact. The assumptions are based on present circumstances and currently available information and are believed to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such estimates will be achieved.

TABLE 5

TABLE 6

TABLE 7

UNOBLIGATED CASH BALANCE AND BUDGET RESERVE FUND

The General Fund unobligated cash balance for the past ten years is listed below. These figures represent the ending cash balance less encumbrances.

<u>Fiscal Year</u>	<u>Unobligated Cash Balance</u>
1995	\$ 2,925,985
1996	11,697,800
1997	13,346,000
1998	35,640,563
1999	46,555,079
2000	179,524,220
2001	178,460,257
2002	0
2003	8,629,000
2004 (estimated)	69,531,000

Source: Division of Financial Management

The budget reserve fund for the past six years is listed below.

<u>Fiscal Year</u>	<u>Budget Reserve Fund</u>
1999	\$ 36,030,000
2000	36,030,000
2001	53,240,000
2002	53,090,000
2003	0
2004 (estimated)	0

Source: State Treasurer

STATE FINANCES

Statewide Accounting Policies and Practices

The Statewide Accounting and Reporting System (STARS) is an accounting, financial reporting and budgetary control system and is the accounting system of record for the State of Idaho. The State maintains records on a budgetary (cash) basis during the fiscal year and records adjustments for financial reporting purposes at fiscal year end.

Financial Reporting and Budgeting

The State produces a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles as defined by the Government Accounting Standards Board that can be viewed at www.sco.state.id.us. The CAFR has received unqualified audit opinions from the State's auditors and the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association since 1997.

The State Division of Financial Management prepares the Governor's budget; monitors legislative action involving the budget; and produces the Revenue and Economic forecasts. The Governor's Executive Budget; the Budget Activities Summary which includes legislative action taken through the 2004 session and delineates changes to the Governor's budget; and the General Fund Revenue Book are all available at <http://www2.state.id.us/dfm/>.

State Financial Administration

The State Controller is responsible for maintaining the uniform Statewide Accounting and Reporting System (STARS). STARS records the budgetary and financial transactions of the State for the General Fund and all other funds maintained by the State Treasurer.

The State Treasurer is responsible for the receiving and disbursement of all State monies, management of all bank accounts and investments of surplus cash. Some funds are invested separately and the remaining cash balances are combined for investment purposes. All interest earned is credited to the General Fund unless otherwise required by law.

Revenue Projection Process

Since 1993 (FY 1994), the Legislature has not produced its own revenue forecast. However, a joint legislative economic outlook committee meets at the beginning of the legislative session to review the executive revenue forecast and advise legislative leadership concerning the viability of that forecast.

During the interim period between legislative sessions, monthly cash receipts are tracked. A revenue monitoring group composed of representatives of the State Treasurer, Legislative Services, the State Controller, the State Tax Commission and the Division of Financial Management review actual receipts and projections on an as needed basis. Legislative leaders are kept informed of revenue trends and prospects by the Legislative Budget and Policy Analysis Section.

The Legislature and the Governor of the state have a constitutional responsibility for achieving a balanced budget. In 2004 the legislature adopted the executive general fund revenue forecast for FY 2004, but for FY 2005 adopted a revenue forecast that was more pessimistic than the executive forecast. The legislative forecast was not developed at the individual revenue item level, but instead was based on the average of each committee member's best estimate of total FY 2005 general fund revenue. For FY 2005 the legislative revenue forecast is \$14.6 million lower than the executive forecast.

Executive Revenue Forecasts

The Executive branch forecasts General Fund revenues for use in the development of the Executive Budget and for management of current year fiscal operations. Official Executive Revenue Forecasts are released two times each year and monthly revenues are monitored year-round on an on-going basis. The semiannual forecast update cycle results in three separate executive revenue forecasts for each fiscal year. The first occurs in January, six months before the start of the fiscal year in question. The second is in July, at the beginning of the fiscal year in

question. The third, and final, forecast is in January at the midpoint through the fiscal year in question.

IDAHO MILLENNIUM FUND

During the legislative 2000 session, the Idaho Legislature amended Title 67 of the Idaho Code by adding Chapter 18 relating to the Idaho Millennium Fund. This legislation has established an endowment fund to receive, invest, and disburse funds that the State of Idaho is receiving as a result of the master settlement agreement reached with tobacco companies. On April 20, 2004 the market value of this fund was \$22,581,045.

On March 23, 2004 the Governor signed House Bill 783 that appropriated \$1,939,700 from the Millennium Fund to the State Treasurer for specified purposes for FY 2005. This bill also provides that unexpended and unencumbered moneys shall revert to the Idaho Millennium Income Fund.

RECENT FINANCIAL INFORMATION REGARDING THE STATE

Fiscal Year 2005

The total amount of General Funds forecasted to be available in FY 2005 is \$2,136,652,900. This consists of \$72,509,800 in beginning balance, \$2,117,368,000 in original projected revenues (executive forecast), less \$14,598,200 in legislative adjustment to the revenue forecast, less \$20,747,400 in transfer to the budget stabilization fund, less \$500,000 in transfer to the Water Resources Revolving Development Fund (HB 843), less \$17,379,300 in net revenue adjustments that result from 8 law changes that were enacted during the 2004 legislative session.

The original executive revenue forecast for FY 2005 is \$41.1 million (2.0%) above the revised FY 2004 executive forecast. This forecast was modified by the legislature in its Joint Revenue Assessment Committee in mid-January 2004. That committee accepted the FY 2004 forecast, but reduced the FY 2005 forecast by \$14.6 million. This has the effect of yielding a legislative forecast for General Fund revenue growth of 1.3% in FY 2005. The legislative forecast is currently being used for budgeting purposes, but unfortunately there is no detail associated with the legislative forecast. Because of this lack of detail, the following discussion concerning revenue detail will be based on the current executive forecast. The legislative adjustment is treated as a lump-sum adjustment to the total.

An important point needs to be made regarding the FY 2005 and FY 2004 General Fund revenue growth rates. The forecasts of 17.7% growth in FY 2004 and 2.0% growth in FY 2005 are the result of a number of highly unusual, non-recurring factors. For FY 2004 the largest items behind the 17.7% growth rate are 1) \$170.5 million from an increase in the sales tax from 5% to 6%, effective May 2003 through June 2005, 2) \$22.2 million from an increase in the cigarette tax from \$0.28 to \$0.57 per pack, effective June 2003 through June 2005, and 3) a \$50 million increase from a one-time payment from the federal government as part of the Federal Tax Relief Reconciliation Act of 2003. Without these extraordinary elements of the FY 2004 revenue stream, the normalized forecast for General Fund revenue growth in FY 2004 would have been just 4.4%. Two of these unusual factors also impact the FY 2005 growth rate. Specifically, 1) beginning in FY 2005 the cigarette tax increase is diverted to the Economic Recovery Reserve

Fund, yielding a drop in FY 2005 revenue of \$22.2 million and 2) the absence of the Federal Tax Relief Reconciliation Act funds in FY 2005, which results in a drop in revenue of \$50 million. Without these extraordinary impacts, the normalized forecast for FY 2005 General Fund revenue growth would be 6.2%.

The largest category of revenue growth forecast for FY 2005 in absolute terms is the individual income tax. After a projected increase of 6.9% in FY 2004, the individual income tax is expected to grow 7.4% in FY 2005 to \$962.0 million. Several laws enacted during the 2004 legislative session impacted the FY 2005 individual income tax forecast and are not reflected in this original executive forecast. HB 567 (long-term health care insurance deduction) is estimated to reduce revenue by \$500,000. HB 610 (Children's Village income tax credit) is estimated to reduce revenue by \$12,000. HB 651 (increased jobs credit for higher paying jobs) is estimated to reduce revenue by \$30,000. HB 720 (IRS section 179 conformance) is expected to reduce revenue by \$720,000. Finally, HB 753 (Women's/Children's Alliance credit) is estimated to reduce revenue by \$50,000. Combined, these five actions reduce the adjusted FY 2005 individual income tax forecast to \$960,688,000, a 7.2% increase over FY 2004.

The corporate income tax is forecast to grow by \$17.9 million (17.9%) to \$118.0 million in FY 2005, from \$100.1 million in FY 2004. This follows projected growth of 7.5% in FY 2004. Two laws enacted during the 2004 legislative session impacted the FY 2005 corporate income tax forecast and are not reflected in this original executive forecast. HB 651 (increased jobs credit for higher paying jobs) is estimated to reduce revenue by \$270,000. HB 720 (IRS section 179 conformance) is expected to reduce revenue by \$1,080,000. Combined, these two actions reduce the adjusted FY 2005 corporate income tax forecast to \$116,650,000, a 16.6% increase over FY 2004.

The sales tax forecast is for an increase of \$37.7 million (4.3%) to \$921.8 million in FY 2005. This follows growth of 26.3% in FY 2004. The sales tax rate was increased in the 2003 legislative session (HB 400) effective May 1, 2004. This is expected to generate an additional \$170.5 million in FY 2004 and \$177.7 million in FY 2005. All but 3.5% of the sales tax growth in FY 2004 is due to the rate increase. Two bills were enacted in the 2004 legislative session that impact FY 2005 sales tax revenue. HB 538 (agricultural equipment property tax exemption) reduces revenue by \$13,448,100. It should be noted that this exemption was actually enacted in 2001, and HB 538 is simply an accounting change that shifts the funding for this exemption from the income tax refund fund to the sales tax. HB 601 (Blind Service Foundation tax exemption) reduces revenue by \$6,600. The combined impact of these two sales tax related law changes is a decrease in the adjusted FY 2005 sales tax forecast to \$908,356,300, a 2.7% increase over FY 2004.

General Fund revenues from the product taxes are forecast to decline by \$23.3 million (minus 51.4%) in FY 2005. The decrease is due to the diversion of all extra revenue from the cigarette tax increase (HB 264 in 2003) to the Economic Recovery Reserve Fund. No law changes in 2004 impacted the product taxes.

Miscellaneous revenues were originally projected to fall by \$57.3 million (38.0%) in FY 2005 due to a combination of the inclusion of \$50 million in one-time transfer from the federal government in FY 2004, and continued federal phase-out of the State "pickup" of the estate tax. One action of the 2004 legislative session reduced the original forecast for FY 2005 miscellaneous revenue. HB 724 (reduced single insurance premium tax rate) reduces revenue by

\$1,262,600. This results in an adjusted FY 2005 miscellaneous revenue forecast of \$92,299,400, a 38.8% decrease from FY 2004.

Expenditures authorized for FY 2005 consist of \$1,991,597,100 in base spending plus \$90,541,200 in adjustments and enhancements. An ending balance of \$54,514,600 is anticipated.

Public schools received an additional \$34,840,700 in FY 2005. This is comprised of \$36,959,000 in enhancements plus \$1,394,700 in nonstandard adjustments less \$3,513,000 in negative operating expense inflation. The negative operating expense inflation was primarily related to savings in transportation costs. Colleges & Universities received an additional \$5,366,200 in FY 2005. This is entirely classified as an enhancement.

Other State departments received a total increase of \$50,334,300 in FY 2005. It is broken down into its component parts as follows:

Operating Expense and Trustee Benefit Payment inflation was \$10,435,600. Health & Welfare received \$10,320,300.

Replacement Capital Outlays were also very limited, totaling just \$50,500. The State Library received \$40,000, and the Legislative Branch received \$10,500.

State department employee salary increases (CEC, or Change in Employee Compensation) were \$6,687,700 in FY 2005. Personnel Benefits were increased \$8,200,000, primarily to mitigate a portion of expected increases in health care premium rates and fund the employer share of a retirement benefit contribution increase.

Annualizations are \$0 in FY 2005, and fund shifts totaled \$1,201,000. The largest fund shifts were \$629,200 into the Attorney General's office, and \$277,900 into the Department of Corrections.

Enhancements for other State departments were minus \$1,224,500. This is a net figure and reflects both increases and decreases for specific agencies. Increases totaled \$2,349,100 and decreases totaled \$3,573,600. The largest decrease was \$3,402,300 to Health & Welfare as a result of savings related to managed care, disease management, and prescription management. The largest increase was \$1,117,700 to the Department of Commerce, which merges with the Department of Labor on July 1, 2004, for rural development programs.

Finally, Nonstandard Adjustments for other State departments total \$24,984,000 in FY 2005. Nonstandard Adjustments are maintenance of current operations items associated with enrollment increases, caseload increases, etc. \$24,755,900 of FY 2005 nonstandard adjustments were in Health & Welfare primarily for Medicaid increases.

Fiscal Year 2004

Total General Funds projected to be available in FY 2004 are \$2,064,304,300. This consists of a \$15,745,000 beginning balance, plus \$2,076,240,00 in projected revenues, less \$26,180,700 in transfers out of the General Fund, less \$1,500,000 from one law change (HB720, IRS section 179 conformance).

General Fund expenditures are projected to total \$1,991,794,500. This consists of \$2,004,053,000 in original appropriations, plus \$2,061,300 in prior year reappropriations, plus \$4,180,200 in positive supplementals, less \$18,500,000 in negative supplementals. The projected ending balance is \$72,509,800.

The current FY 2004 revenue forecast of \$2,076.2 million is \$229.8 million higher than the original executive revenue forecast of \$1,846.4 million made in December 2002. \$170.5 million of this increase is due to the sales tax rate increase that was enacted in 2003 (HB 400). \$22.2 million of this increase is due to the cigarette tax increase that was enacted in 2003 (HB 264). \$5.4 million of this increase is due to the net effect of all other revenue-related legislation that was enacted in 2003. \$50 million of this increase is due to federal government tax relief that was enacted in 2003 (Federal Tax Relief Reconciliation Act). The residual (minus \$18.3 million) is due to downward forecast revisions.

The individual income tax accounts for the majority of the downward revision to the FY 2004 revenue forecast. The individual income tax has been revised downward by \$36.8 million (3.9%) to \$895.8 million due to weaker revenue results for FY 2003 than were forecasted in late 2002. In December 2002 the projected growth rate for the individual income tax in FY 2004 was 5.2%. The current projected growth rate is 6.9%. The FY 2003 starting point was expected to be \$886.2 million in the December 2002 forecast, but the actual FY 2003 starting point (and the one used for the December 2003 forecast) was only \$837.8 million.

The corporate income tax forecast for FY 2004 has been revised upward by \$8.4 million (9.2%) to \$100.1 million on the basis of both better than expected revenue in FY 2003, and higher (7.5% vs. 6.6%) growth expected in the current forecast versus the December 2002 forecast. The FY 2003 starting point was expected to be \$86.0 million in the December 2002 forecast, but the actual FY 2003 starting point (and the one used for the December 2003 forecast) was \$93.1 million.

The sales tax forecast has been revised upward by \$178.4 million (25.3%) to \$884.1 million. The bulk of this increase (\$170.5 million) is due to the sales tax increase enacted in 2003 (HB 400).

The product tax category has been revised upward by \$22.6 million (99.5%) to \$45.3 million. The bulk of this increase (\$22.2 million) is due to the cigarette tax increase enacted in 2003 (HB 254). The miscellaneous revenue forecast has been revised upward \$57.2 million (61.0%) to \$150.9 million. The bulk of this increase (\$50.0 million) is due to a payment from the federal government under the Federal Tax Relief Reconciliation Act of 2003.

Fiscal Year 2003

General Fund revenue in FY 2003 was \$1,763,946,300. An additional \$1,343,300 was available as a carryover from the prior year. Transfers into the General Fund totaled \$194,301,500. Transfers out of the General Fund totaled \$18,784,800. Cancellation of prior year encumbrances totaled \$395,900. Total funds available in FY 2002 were \$1,941,202,200.

General Fund revenue growth was 3.7% in FY 2003. This was \$9.1 million, or 0.5%, lower than the revised executive forecast made in December 2002. Actual revenue growth in FY 2003 includes an estimated \$13.0 million due to the increase in the sales tax enacted in 2003 (HB

400). Without this law change the FY 2003 revenue result would have been \$22.1 million (1.2%) lower than the revised executive forecast made in December 2001.

The weakest revenue growth in FY 2003 in percentage terms was from the individual income tax. Its increase of \$1.95 million (0.2%) was \$48.4 million less than the 6.0% increase that was expected in the December 2002 forecast.

The corporate income tax had the largest rate of increase in FY 2003, growing by 22.1% (\$16.8 million). It was expected to grow by 12.7% (\$9.7 million) in the December 2002 forecast.

The sales tax grew by \$43.1 million (6.6%) in FY 2003. This is \$21.3 million higher than the forecast of 3.3% growth made in the December 2002 revised executive forecast. \$13 million of this difference is estimated to be due to the sales tax increase that was enacted in the 2003 legislative session. The remainder (\$8.3 million) is due to better revenue performance.

The product tax revenue category grew by \$0.7 million (3.5%) in FY 2003. This was \$0.4 million worse than the 5.3% increase expected in the December 2002 revised executive forecast.

Miscellaneous revenues grew by \$0.9 million in FY 2003, a 0.8 percent increase. This is \$11.2 million higher than the 9.4% decline expected in the December 2002 revised executive forecast. The bulk of this increase was due to \$8.0 million more in estate tax collections than were expected, and \$6.0 million more in insurance premium tax collections than were expected. These two areas of unexpected strength were partially offset by weakness in interest earnings.

General Fund spending in FY 2003 was \$1,925,457,200. This consisted of \$1,967,895,400 in original appropriations, plus \$1,343,300 in prior year reappropriations, less \$19,512,000 in negative supplementals (a 3.5% holdback was applied to most state agencies), plus \$270,600 in spending from asset sales and insurance settlements, less \$24,540,100 in reversions and next year reappropriations.

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TABLE 8
IDAHO ECONOMIC INDICATORS

	Calendar Years				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u> (Projected)
Personal Income (millions)	\$ 32,363	\$ 33,585	\$ 35,209	\$ 36,779	\$ 38,618
Percent Change	3.8%	3.8%	4.8%	4.5%	5.0%
Total Nonfarm Employment	568,015	568,008	571,527	578,455	587,844
Percent Change	1.7%	0.0%	0.6%	1.2%	1.6%
Goods Producing Employment	110,221	105,019	102,144	101,484	100,866
Percent Change	-1.5%	-4.7%	-2.7%	-0.6%	-0.6%
Service Producing Employment	457,794	462,989	469,383	476,971	486,978
Percent Change	2.5%	1.1%	1.4%	1.6%	2.1%
Population (thousands)	1,320.7	1,341.0	1,362.5	1,383.4	1,403.4
Percent Change	1.7%	1.5%	1.6%	1.5%	1.4%
Housing Starts (Idaho)	12,239	13,170	16,181	14,480	13,906
Single Unit	10,428	11,152	13,743	12,675	12,320
Multiple Unit	1,811	2,019	2,438	1,805	1,586

Selected U.S. Production Indices (1997 = 100)

Lumber & Wood Products	100.6	100.6	99.0	103.0	98.9
Computer & Electronic Products	226.1	234.7	267.0	318.8	371.3
Semiconductors & Other Comp.	442.8	523.9	661.3	889.2	1070.0
Food	106.9	107.1	106.1	106.9	109.8
Paper	94.3	93.5	92.4	93.8	96.4
Agricultural Chemicals	80.6	81.7	81.1	85.9	83.8
Mining Except Oil & Gas	99.8	97.3	95.6	98.5	102.1

Selected U.S. Producer Prices (1982 = 1.000)

All Items	1.342	1.311	1.381	1.416	1.404
Lumber & Wood Products	1.744	1.733	1.775	1.901	1.892
Machinery & Equipment	1.236	1.229	1.220	1.222	1.226
Farm	1.038	0.990	1.115	1.132	1.091
Pulp, Paper & Allied Products	1.848	1.859	1.900	1.961	2.034
Chemicals	1.518	1.519	1.618	1.696	1.759

Sources: Global Insight and *Idaho Economic Forecast*, April 2004.

TABLE 9

TABLE 10

GENERAL TAX REVENUES

The following General Tax Revenues are the sources for the repayment of principal of and interest on the Notes.

Individual Income Tax (Title 63, Chapter 30, Idaho Code)

Collections from the individual income tax are based on a graduated scale of tax liability applied to taxable income. There are several rates and brackets for taxable income up to \$7,500 (\$15,000 for joint returns). Between \$7,500 and \$20,000 (\$15,000 to \$40,000 for joint returns) the rate is 7.4%, effective January 1, 2001. For taxable income above \$20,000 (\$40,000 for joint returns) the rate is 7.8%, effective January 1, 2001. In subsequent years the brackets are indexed to offset the affects of inflation. Also, State law conforms to most of the provisions enacted in the Tax Reform Act of 1986. Notable exceptions include a) enactment of a limited capital gains exclusion at the State level, b) retention of the State investment tax credit, including its general tie-in to the federal definition of eligible property.

Most collections occur through the monthly withholding process. The remainder is collected through net filings. An amount equal to 20% of the individual income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Account. Any balance exceeding \$1,500,000 in the Income Tax Refund Account at the end of the year is transferred to the General Fund on June 30. A filing tax of \$10 per tax return is assessed, with proceeds distributed to the Permanent Building Fund. All other revenues from the individual income tax accrue to the General Fund.

TABLE 11
STATE OF IDAHO
INDIVIDUAL INCOME TAX
Individual Income Tax Net Collections

<u>Fiscal</u> <u>Year</u>	<u>General</u> <u>Fund</u>	<u>Building</u> <u>Fund</u>	<u>Total</u>
1994	\$ 559,166,605	\$4,215,401	\$ 563,382,006
1995	596,457,494	4,458,954	600,916,448
1996	650,850,016	4,708,545	655,558,561
1997	704,819,923	4,236,116	709,056,039
1998	776,192,032	4,817,330	781,009,362
1999	841,864,958	5,107,517	846,972,475
2000	960,163,683	5,041,070	965,204,753
2001	1,023,970,174	6,073,061	1,030,043,235
2002	835,854,808	5,636,609	841,491,417
2003	837,798,601	5,358,290	843,156,891

(Source: State Tax Commission)

Sales Tax (Title 63, Chapter 36, Idaho Code)

Sales tax collections are based on a flat rate of 6% applied to the sales price or value of all tangible personal property subject to sales and use taxation. Exemptions to the sales and use tax include a) tangible personal property used or consumed directly in the production of manufactured goods, minerals or agricultural products (the so-called production exemption), b) gas, water and electricity sold to consumers, c) heating material sales, d) the value of traded-in merchandise, e) occasional sales and home yard sales, f) materials used in research at the Idaho National Engineering and Environmental Laboratory, g) irrigation equipment, h) pollution control equipment, i) school lunches, j) prescription drugs, and k) logging. Sales tax funds must be allocated to the Idaho Housing and Finance Association if within 60 days of the close of the fiscal year, the Chairman of the Housing Agency Board of Commissioners certifies to the State Tax Commission that a deficiency exists in any Agency Capital Reserve Fund. No claims have ever been made by the Agency for state sales tax funds and none are anticipated. The Legislature has eliminated the continuing appropriations for all Idaho Housing and Finance Association bonds issued on or after January 1, 1996.

Sales tax rates since inception of the tax have been as follows:

<u>Dates</u>	<u>Rate</u>
July 1, 1965 - Feb. 28, 1983	3.0%
March 1, 1983 - May 31, 1983	4.0%
June 1, 1983 - June 30, 1984	4.5%
July 1, 1984 - March 31, 1986	4.0%
April 1, 1986 – April 30, 2003	5.0%
May 1, 2003 – June 30, 2005	6.0%*

*2003 Economic Recovery and Stabilization Act increased the sales tax from 5% to 6% for the period May 1, 2003 through June 30, 2005. The sales tax is scheduled to return to 5% on July 1, 2005.

The current distribution formula for revenues generated by the sales tax is as follows:

1. 11.50% of net collections to revenue sharing (cities and counties);
2. \$5,000,000 per year to the Permanent Building Fund;
3. \$4,800,000 per year to the Water Pollution Control Fund;
4. \$12,100,000 (or such amount as the Tax Commission certifies is needed) to fund the Circuit Breaker Program;
5. Remaining net collections to the General Fund.

TABLE 12
STATE OF IDAHO
TAXABLE SALES AND USE TAXABLE SALES
(000s omitted)

<u>Calendar</u> <u>Year</u>	<u>Amount</u>	<u>Calendar</u> <u>Year</u>	<u>Amount</u>
1994	\$ 11,191,306	1999	\$ 14,601,265
1995	11,624,000	2000	14,912,310
1996	12,285,739	2001	14,211,532
1997	12,434,851	2002	16,193,606*
1998	12,970,353	2003	16,655,483

*Due to a system conversion at the end of fiscal year 2001 some taxable sales and use taxable sales from 2001 were reported in 2002.

(Source: State Tax Commission)

Corporate Income Tax (Title 63, Chapter 30, Idaho Code)

Collections from the corporate income tax are based on a flat rate of 7.6%, effective January 1, 2001 (8.0% before that date), applied to taxable income. Prior to tax year 1987, the rate had been 7.7%. Beginning with 1987, Idaho conformed to the changes made by the Tax Reform Act of 1986, except for the investment tax credit repeal. Idaho continues to allow a 3% credit that is tied generally to the federal definition of eligible property. Also new for 1987, Idaho began requiring that corporations file quarterly payments of estimated taxes. This new provision is based upon the federal rules, and was being phased-in over a two-year period.

An amount equal to 20% of the corporate income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State income tax refund account. Any excess not diverted for refunds reverts to the General Fund. A filing tax of \$10 per tax return is assessed, with proceeds distributed to the Permanent Building Fund. All other revenues from the corporate income tax accrue to the General Fund.

TABLE 13
STATE OF IDAHO
CORPORATE NET INCOME TAX

<u>Fiscal</u> <u>Year</u>	<u>General</u> <u>Account</u> <u>Receipts</u>	<u>State</u> <u>Building</u> <u>Fund</u>	<u>Total</u>
1994	\$ 87,628,174	\$ 196,830	\$ 87,825,004
1995	131,636,134	250,724	131,886,858
1996	151,979,175	246,724	152,225,899
1997	122,357,177	249,546	122,606,723
1998	117,286,401	283,673	117,570,074
1999	95,437,675	270,030	95,707,705
2000	124,872,935	303,591	125,176,526
2001	141,527,236	349,042	141,876,278
2002	76,295,588	311,959	76,607,547
2003	93,129,692	345,136	93,474,828

(Source: State Tax Commission)

Other Taxes

Cigarette Tax (Title 63, Chapter 25, Idaho Code)

Cigarette tax collections are based on a tax of 57 cents per pack of 20 cigarettes. The Public School Income Fund receives 5.1746 cents, and another 5.1746 cents goes to County Juvenile Probation Services. Of the balance remaining, 21.25% is distributed to the General Fund, 17.3% is credited to the Permanent Building Fund, 0.4% (to a maximum of the fiscal year appropriation) goes to the Tumor Registry Fund, and 1% is distributed to the Cancer Control Account. In fiscal year 2004 an additional \$23.5 million will be combined with the normal 21.25% distribution to the General Fund. The remainder is credited to the newly-created Economic Recovery Reserve Fund.

Tobacco Tax (Section 63-2552 Idaho Code)

Tobacco Tax collections are collected on the sale, use, consumption, handling or distribution of all tobacco products in the State at the rate of 40%, 6.25% is distributed to the Public School Income Fund, 6.25% is distributed to County Juvenile Probation Services and the remainder accrues to the General Fund.

Beer Tax (Section 23-1008, Idaho Code)

Of the total tax of \$4.65 per 31-gallon barrel or equivalent that is levied on beer, \$.93 goes to the Alcoholism Treatment Account, \$1.55 to the Permanent Building Fund and the remainder (\$2.17) to the General Fund.

Wine Tax (Section 23-1323, Idaho Code)

Revenue is derived from a tax on wine sold in Idaho. The rate is \$.45 per gallon of wine. Twelve percent (12%) goes to the Alcoholism Treatment Account, 5% goes to the Idaho Grape Growers & Wine Commission and the remainder to the General Fund.

Kilowatt Hour Tax (Title 63, Chapter 27, Idaho Code)

Revenue is derived from a one-half mill per kilowatt hour tax on electricity generated in the State of Idaho by water power. Power used by industrial consumers and for the irrigation of land is exempt from this tax. All collections accrue to the General Fund.

Mine License Tax (Title 47, Chapter 12, Idaho Code)

Revenue is derived from a 1% "profit" tax on Idaho mining operations. All collections accrue to the General Fund.

Liquor Surcharge (Section 23-217, Idaho Code)

Revenue is derived from a 15% surcharge on the retail price of liquor sold by the State liquor dispensary. Idaho Law provides for a transfer of \$4.945 million annually to the General Fund.

Insurance Premium Tax (Title 41, Chapter 4 and Section 59-1357, Idaho Code)

The Insurance Premium Tax was modified in 1994 to reduce the rate from 3.0% to 2.75% of gross premiums written in the State. The rate on title insurance was raised in 1988 from 1.1% to 1.5%. All insurers, other than life insurers, with 25% or more of their total assets invested in domestic investments may qualify for a 1.4% rate. Life insurers may qualify for a 1.4% rate with 25% or more of their total reserve invested in domestic investments. The preferential rate was decreased from 1.6% in 1994.

Most annual receipts occurred in the month of March until the 1983 fiscal year when a system of quarterly payments was instituted. Prepayments based on previous year premiums are now due in June (60%), September (20%) and December (15%), with full payment for any balance due the following March 1. Approximately 95% of the fire insurance premiums are distributed from tax prepayments – 100% of the final fire insurance premium taxes are distributed to the Fireman's Retirement Fund.

Collections of filing fees, license fees, license fees and miscellaneous charges are also made. Beginning December 31, 1984, these revenues were transferred to the Insurance Administration Fund to fund Department of Insurance appropriations. At the beginning of each fiscal period, amounts in this fund exceeding the current fiscal year appropriation by more than 25% are transferred to the State of Idaho General Fund.

In 1997 fiscal year legislation changed Health Maintenance Organizations (HMO's) to Managed Care Organizations. This changed their tax rate from \$.04 per subscriber to the 2.75% of gross premiums written in the State.

Estate Tax (14-413, Idaho Code)

The State Tax Commission collects estate taxes and remits the money to the State Treasurer. Estate Taxes are distributed as follows: 10% goes into a fund to be sent to the counties (at least quarterly); an amount sufficient to pay current refund claims is paid into the State Refund Fund; and the balance is distributed 10% into the Resource Conservation and Rangeland Development Loan Fund with the balance distributed to the General Fund. The Estate Tax phases out as of December 31, 2004, there will be no tax on estates where the date of death is January 1, 2005 or later.

LITIGATION

On December 30, 1998, the Idaho Supreme Court issued its decision in the case of *Idaho Schools for Equal Educational Opportunity v. The State of Idaho*. The Court concluded that, pursuant to Article IX, § 1, of the Idaho Constitution, which requires the Legislature to "establish and maintain a . . . thorough system of public, free common schools," the Legislature must provide a means for school districts to fund facilities that provide a safe environment conducive to learning. The Court vacated a summary judgment granted by the District Court of the Fourth Judicial District dismissing this claim and ordered the matter remanded for a trial or "other appropriate proceeding to determine whether the Legislature has provided a means to fund facilities that provide a safe environment that is conducive to learning." The Court upheld a summary judgment dismissing claims for a declaration that a thorough system of public, free common schools requires (1) equalization of funding for capital expenditures, and (2) not submitting special override levy elections to the voters for special facility levies. The plaintiffs' petition for reconsideration by the Supreme Court of the last two matters was denied May 17, 1999.

The case was tried during March and August, 2000. On February 5, 2001, Fourth District Judge Deborah Bail issued her Findings of Fact and Conclusions of Law that the current "system for the replacement and major repairs of unsafe buildings based upon loans alone is not adequate to meet the constitutional mandate to establish and maintain a general, uniform and thorough

system of public free, common schools in a safe environment conducive to learning for Idaho's poorest school districts which lack any reasonable means to repay such loans while maintaining a thorough education for their students." The District Court retained jurisdiction to allow the Legislature to address its ruling, but in denying a permissive appeal to the Supreme Court of Idaho, the District Court further stated:

The Court has concluded that the funding system itself is flawed in that a solely loan-based system of funding to replace or repair unsafe school buildings is not adequate under the Idaho Constitution because the poorest school district cannot obtain the funding to repair or replace seriously dangerous and defective buildings. The Court has concluded, based upon the facts, that the problem is a system problem, not just a problem of a few individual schools. Considerable work remains for the Court in fashioning a remedy.

The District Court concluded:

There should be no doubt in anyone's mind – if the legislature does not act, the Court will. At the same time, the legislature ought to have the first opportunity to utilize its unique powers to examine issues, to balance competing interest, and to consider multiple reasonable options to deal with the real problem.

The District Court added:

Obviously, there is a need for outright aid to repair or replace unsafe schools for the poorest school district[s] who are suffering from declining population, high unemployment, low income, a low property tax base, but high property taxes and which cannot reasonably assume greater debt.

The District Court further stated:

The fashioning of a system which provides a means to fund safe school buildings is, first and foremost, a legislative responsibility. There are a number of different approaches which the legislature might find workable. The legislature's own 1993 Needs Assessment outlines the approaches followed by other states which have dealt with the same problem Idaho now must address. Alaska appropriates funds which are distributed based upon a priority ranking system: the highest priority is given to life/safety issues, followed by unhoused students, protection of structures, code upgrades, operational cost savings, functional upgrades. Georgia uses matching grants with a ratio which varies based upon the wealth of the district. Washington uses matching grants to make bond passage more palatable to local voters. Lowering the supermajority requirement and creating incentives to help local school districts deal with the repair and replacement needs before students are endangered are among the many possible options which could be followed. Idaho may want to borrow and adapt other approaches or create its own.

The Idaho legislature is currently exploring a range of approaches.

The District Court also stated that its February 5, 2001, decision was not yet complete and that a further decision would be made. It retained jurisdiction of the case, and further hearings in a remedial phase of the case were conducted during the summer and fall of 2002. The District Court did not complete the remedial phase. The District Court interrupted the remedial phase of the case to appoint a Special Remedial Master at State expense to review conditions in the State's schools and to make recommended findings to the District Court concerning the conditions in the State's schools. The State promptly filed in the Idaho Supreme Court a motion for a writ of prohibition against the District Court's order that the State pay the Special Remedial Master's compensation because there was no appropriation for his estimated cost of \$300,000 to \$400,000. The petition for the issuance a writ of prohibition was filed on December 23, 2002, and is still pending as of June 1, 2004.

In the meantime, the District Court certified as appealable its February 5, 2001, order and its order to pay the Special Remedial Master's compensation. The State has filed a Conditional Notice of Appeal. The appeal is conditional because the 2003 Legislature enacted a statute suspending the litigation and bringing it under the procedures of the Constitutionally Based Educational Claims Act, which require citizen suits about schools to be first brought against local school districts, then against the State only if local school districts do not have the resources to provide a constitutionally required education. With regard to school facilities, the 2003 amendments give the District Court authority to order the school district to levy an educational necessity levy to abate unsafe conditions.

The 2003 Legislature then passed House Bill 403, which authorizes the District Court to impose an educational necessity levy (a property tax) to fund abatement of unsafe conditions in public schools. The State moved the Idaho Supreme Court to consider whether this intervening legislation mooted the Plaintiffs' claims of no funding source to fix unsafe conditions. The Supreme Court remanded the issue of the constitutionality of House Bill 403 to the District Court, which found it unconstitutional for a variety of procedural and substantive reasons. Substantively, the District Court held HB 403 unconstitutional because, among other things, the District Court ruled that reliance on property taxes to abate unsafe conditions was unconstitutional and the educational necessity levy could lead to "crippling" taxes.

The State of Idaho moved the Idaho Supreme Court to consider the issue of HB 403's constitutionality by itself and to expedite the appeal. The Court granted both motions. The case was heard on April 16, 2004, and a decision is expected within the next few months.

It is not possible to predict the eventual outcome of the case or the case or the possible fiscal impact on the State. It is unlikely at this time that the District Court's eventual rulings will have any significant financial impact on the State during the 2004-2005 fiscal year.

In the opinion of the Attorney General of the State of Idaho, there is no litigation pending against the State that will materially adversely affect the ability of the State to pledge the General Tax Revenues to the repayment of the Notes. At the time of the delivery of the Notes, the Idaho Attorney General's office will provide a certificate stating that there is no litigation pending or threatened against the State or its officers which questions the authority of the State to issue the Notes or which seeks to restrain or enjoin the issuance or delivery of the Notes or the collection of the General Tax Revenues pledged to the repayment of the Notes.

UNIVERSITY OF IDAHO

The University of Idaho has endeavored to build a satellite campus, called University Place, in Boise. It was conceived as an ambitious multi-building complex of which the first phase is under construction and is due to open October 1, 2004. The other phases were canceled June 27, 2003 by interim university president Gary Michael.

Part of the financing mechanism for funding the scope of the original project involved loans made between the University and its nonprofit foundation. This portion of the funding mechanism was subject to question by the Idaho State Board of Regents and resulted in a report commissioned by the Board in 2003. Upon completion of the report, it was referred to the Idaho Attorney General's office and the U. S. Attorney's office for further investigation, which has not been completed.

While the financial difficulties due to this expansion have been significant to the University, they do not appear to be averse to the financial standing of the State of Idaho. The University of Idaho has improved its internal controls, and recent enrollment growth over the past five years and substantial increases in research funding are positive indicators for the future.

The University will continue to make programmatic and funding changes in its operations. This will not affect the financial controls between the State and the University and, therefore, State funds will likely not be adversely impacted by these efforts.

THE IDAHO SCHOOL BOND GUARANTY ACT

By enactment of Senate Bill No. 1236, the 1999 Idaho Legislature created the "Idaho School Bond Guaranty Act" (the "Act"), now codified as Chapter 53, Title 33, Idaho Code, for the purpose of establishing a default avoidance program for voter-approved school bonds issued by Idaho public school districts. (Voter-approved school bonds are general obligation bonds, for which the full faith and credit and unlimited ad valorem taxing power of the issuing school district are pledged.)

The Act:

- Pledges the sales tax of the State to guarantee the full and timely payment of the principal of and interest on school bonds approved by the voters on and after March 1, 1999.
- Provides that the State Treasurer, after determining eligibility, may issue a certificate of eligibility for the State's guarantee, which shall be printed on the bonds and which is good for the life of the bonds.
- Provides that the State Treasurer shall (i) monitor the financial affairs and conditions of each school district and immediately report to the Governor and State Superintendent of public instruction any circumstances suggesting that a district will be unable to meet its debt service obligations, (ii) recommend a course of action to correct such problems, and (iii) if warranted, issue a determination of ineligibility.
- Provides for notification to and advancement of funds by the State Treasurer to the paying agent for any guaranteed bonds whenever a district is unable to make its scheduled debt service payments.
- Requires the State Treasurer to intercept any payments due that district from the public school permanent endowment fund or from any other source of operating moneys provided by the State, and to apply the intercepted payments to reimburse the State for payments made pursuant to the guaranty program.
- Provides that, if necessary, the State Treasurer may issue "general obligation notes" ("notes") to provide funds for the guaranty program, and pledges the State sales tax to pay the notes.

- Creates a credit enhancement program for voter approved school district bonds, to be administered by the public school endowment fund investment board, and provides for purchase by the endowment fund of notes issued by the State Treasurer pursuant to the school bond guaranty program.

The Act has been upheld in all respects by the Idaho Supreme Court.

The Act was amended in 2002 to provide that the amount of debt guaranteed by the credit enhancement program administered by the public school endowment fund investment board shall not be greater than two times the amount made available by the public school permanent endowment fund, and to extend the Act to cover refunding bonds issued on and after March 1, 1999, for bonds approved by the voters prior to March 1, 1999. The 2003 Legislature further amended the Act to increase the available amount from the public school permanent endowment fund to \$200,000,000 and to provide that the amount of debt guaranteed by the credit enhancement program shall not be greater than three (3) times the amount made available from the permanent endowment fund. This effectively limits the amount of bonds which can be guaranteed under the Act to \$600,000,000. As of April 16, 2004 the State Treasurer has issued Certificates of Eligibility guaranteeing \$296,469,000 in various Idaho school district bonds.

It should be noted that distribution of State sales tax moneys pursuant to the pledge of the school bond guaranty program can occur only after all required payments to the Tax Anticipation Note Redemption Fund have been made as required by Section 63-3203, Idaho Code.

The State does not anticipate that the school bond guaranty program will have any significant fiscal impact upon the State, its operations, or its ability to pay the principal of and interest on the Notes as the same become due.

MUNICIPAL BOND BANK LEGISLATION

The 2000 Idaho Legislature approved Senate Joint Resolution No. 107 (SJR 107), which, as approved by the electors voting at the November 7, 2000, State general election, amended the Idaho Constitution by the addition of a new Section 2A of Article 8.

The constitutional amendment:

1. Authorized the Legislature to enact laws authorizing the State to establish a bond bank authority to purchase the bonds, notes or other obligations of a municipality ("municipality" is defined as a county, city, school district, or any other special district or political subdivision of the State) and to lend money to a municipality with such loan being secured by the bonds, notes or other obligations of the borrowing municipality.
2. To enable the bond bank authority to obtain funds to purchase the bonds or other obligations of or to make loans to municipalities, authorized the legislature to enact laws authorizing the bond bank authority to issue revenue bonds, notes or other obligations payable from or secured by the bonds, notes or other obligations of one or more municipalities, and to pledge or otherwise obligate specific funds

or revenues of the State as a source of payment or security for its bonds, notes or other obligations. The Legislature may also authorize the authority to establish debt service reserves and credit enhancement provisions for its bonds and obligations, and to establish a revolving loan program to purchase municipal bonds, notes or other obligations and to lend money to municipalities.

3. Authorized the Legislature to enact laws authorizing a municipality, in addition to its other powers but subject to the requirements of Section 3 of Article 8 of the Idaho Constitution (requiring voter approval of municipal indebtedness except for "ordinary and necessary" expenses), to issue bonds, notes or other obligations to secure loans received from the bond bank authority, to levy and collect property taxes, fees, rates, changes, and other assessments to pay and secure the bonds, notes and other obligations issued by the municipality for sale to or as security for loans received from the authority, and to pledge and assign the same to pay or secure its bonds, notes and other obligations.

SJR 107 further provided that any debt or liability of the State arising as a result of the exercise of the powers authorized by this amendment shall not be deemed to be a "debt" of the State for purposes of Section 1 of Article 8 of the Idaho Constitution (generally requiring voter approval of state indebtedness).

The 2001 Idaho State Legislature enacted, and the Governor, on March 23, 2001, signed into law, Senate Bill No. 1174, creating a new Title 67, Chapter 87, Idaho Code, to establish a State bond bank authority pursuant to the constitutional amendment (the "Act"). The Act, which took effect on July 1, 2001, creates an independent public body corporate and politic to be known as the Idaho Bond Bank Authority (the "Authority"). The Authority is declared to be an instrumentality of the State within the State Treasurer's office, but with a legal existence independent of and separate from the State. The authority shall consist of five (5) members: the State Treasurer or his designee; one member of the Idaho State Senate appointed by the president pro tempore of the Senate; one member of the Idaho House of Representatives appointed by the speaker; and two members appointed by the Governor. The Authority is authorized, among other powers, to issue bonds payable from or secured by municipal bonds of one or more municipalities (including cities, counties, school districts, and other political subdivisions), to purchase municipal bonds, to pledge sales tax revenues of the state as a source of payment or security for bonds issued by the Authority, and to establish debt service reserve funds for its bonds.

The Act provides an intercept mechanism whereby the State Treasurer may make payments on the bonds of participating municipalities and, if reimbursement is not timely made, intercept the receipt of any payment of property taxes, sales tax moneys to be distributed to the defaulting municipality, or any other source of operating moneys provided by the state to the defaulting municipality. In addition, if moneys expected to be intercepted pursuant to the intercept mechanism are expected to be insufficient to reimburse the State for its payments on the bonds, the State Treasurer shall cause moneys to be transferred from the State sales tax account and deposited into the Authority's fund (so long as such transfer does not "impede or otherwise affect the payment of sales tax moneys pledged for the payment on other outstanding State bonds"). Any pledge of sales tax revenues made by the Authority is a binding lien on the sales tax revenues so pledged.

The 2002 Idaho State Legislature made certain technical amendments to the Act. The 2003 Legislature amended Section 67-8705, Idaho Code (effective July 1, 2003), relating to the powers and duties of the Authority, to authorize the purchase by the Authority of “notes from municipalities to be utilized by a municipality in purchasing, leasing or lease-purchasing tangible personal property when the note was otherwise legally issued and authorized by a municipality and the purchase of the note from a municipality does not violate the State constitution.” The stated purpose of the 2003 amendment is to facilitate municipal lease-purchase financing by consolidating lease notes and thereby obtaining lower interest rates.

The 2002 Idaho State Legislature, by enactment of House Bill No. 669 (effective July 1, 2002), made certain technical amendments to the Act. The 2003 State Legislature amended existing law (Idaho Code 67-8705) to provide the Idaho Bond Bank Authority the power and duty to facilitate the purchase of notes from municipalities to be utilized by a municipality in purchasing, leasing or lease-purchasing tangible personal property when the note was otherwise legally issued and authorized by a municipality and the purchase of the note from a municipality does not violate the State Constitution. The fiscal impact to the State will be reduced interest cost to municipality’s cost of borrowing.

The State does not anticipate that the Act will have any significant fiscal impact on the State, its property, or its ability to pay the principal of and interest on the Notes as the same become due. There have been no bonds issued to date and no lease loans negotiated to date.

SCHOOL SAFETY AND HEALTH REVOLVING LOAN AND GRANT FUND

The 2000 Idaho Legislature enacted Section 33-1017, Idaho Code, creating a school safety and health revolving loan and grant fund. This legislation was a response to the school funding litigation (described under "LITIGATION" elsewhere in this Official Statement). It requires school districts to make annual health and safety inspections of school facilities, to abate any unsafe or unhealthy conditions, and to apply lottery fund receipts to that purpose. It also authorizes a school district which is levying taxes at the maximum authorized rate and which has insufficient funds to finance its abatement needs to apply to the State Treasurer for a loan from the school safety and health revolving loan fund (the "Loan Fund").

Section 33-1017, Idaho Code, provides that the State Treasurer is authorized to make loans from the Loan Fund to qualified school districts. The loan shall be approved if the district’s loan application meets the criteria of Sections 33-1613 and 33-1017, Idaho Code. The legislature initially appropriated the sum of \$10,000,000 for this purpose; however, if the State board of examiners finds that existing and anticipated loans have depleted the Loan Fund to the extent that it does not have sufficient money available to loan to eligible districts, the board of examiners shall declare that additional loans may be made from the budget stabilization fund created by Section 57-814, Idaho Code. The term of any loan shall not exceed ten years, but the Treasurer may extend a loan for an additional ten years. The interest rate on a loan shall be the average rate of interest available to other funds in the State treasury, as determined by the State Treasurer.

The Idaho Legislature amended several sections of the statutes relating to the Loan Fund in 2001 and 2002. The law now provides that a school district that has borrowed from the Idaho safe school facilities loan program may apply for a grant of interest from the safety and health revolving loan and grant fund. The legislation applies to bond issues as well as to school plant

facility levies. The legislation establishes certain conditions of eligibility for a grant: after complying with the statutory requirements for safe public school facilities as set forth in Section 33-1613, Idaho Code, a school district that borrows money or refinances a loan through the Idaho safe schools facilities loan program pursuant to a school plant facilities reserve fund levy for safe school facilities under Section 33-804A, Idaho Code, or finances abatement of unsafe and unhealthy conditions through bonded indebtedness may apply for a grant to pay for eligible interest costs incurred on loan or bond proceeds used to abate unsafe and unhealthy conditions. If accepted, the school district will qualify for a grant of the present value of the qualifying percentage of the interest costs of the loan associated with abating unsafe or unhealthy conditions. The qualifying percentage is determined by the State Treasurer according to the total of the bond and plant facilities levies imposed by the school district (including the levy for which the application is made) and the total levies imposed by the school district, as a fraction of the assessed value for the most recent assessment against which the school district's existing levies are made.

Interest costs for abatement of unsafe and unhealthy conditions are calculated by determining the percentage of the loan proceeds or prepayment of the loan that will be used to abate unsafe and unhealthy conditions.

The law was amended during the 2004 Legislative Session to allow for the transfer of \$377,500 to the School Safety and Health Revolving Loan and Grant Fund. It is expected that this will be expended during the 2004 Fiscal Year.

The State does not anticipate that the Loan Fund Program will have any significant fiscal impact upon the State, its operations, or its ability to pay the principal of and interest on the Notes as the same became due.

STATE BOND LEVY EQUALIZATION SUPPORT PROGRAM FOR SCHOOL FACILITIES

The 2002 Idaho Legislature created a Bond Levy Equalization Support Program (the "Support Program"). A Bond Levy Equalization Fund is created in the State treasury, containing "such moneys as may be directed pursuant to appropriation." The State Department of Education is directed to establish a "value index" for each school district, based on each school district's market value per support unit for equalization purposes, and the average annual seasonally-adjusted unemployment rate and the per-capita income for the county in which a plurality of the school district's market value for assessment purposes of taxable property is located. Under the Support Program, school districts with a value index below one (1) shall be eligible to receive additional state financial assistance for the amount of annual bond interest and redemption payments made on bonds passed on or after September 15, 2002; provided, that any school district shall receive no less than 10% of the interest cost portion of its annual bond interest and redemption payment for bonds passed on or after September 15, 2002. The Support Program may not be utilized to refinance existing debt (except as provided in the 2004 amendments discussed below).

The statute (Section 33-906, Idaho Code, as amended by the 2003 Legislature) provides that the State Department of Education shall disburse such funds to school districts from moneys appropriated from the bond levy equalization fund. Disbursement shall be made no later than September 1 of each year for school districts in which voters have approved the issuance of

qualifying bonds by no later than January 1 of that calendar year. For districts not qualifying for a State payment in the first year of payments due solely to the January 1 eligibility deadline, an additional payment shall be distributed to it the following year in the amount the district would otherwise have qualified for in the first year.

The 2004 amendments prohibit subsidizing projects which have already been subsidized by State grants, but provides that a district that has issued qualifying bonds prior to June 30, 2004, "shall not be deemed to be refinancing existing debt when the qualifying bonds are utilized to finance the acquisition of public school facilities previously leased or financed through means other than general obligation bonds approved by a two-thirds (2/3) vote at an election called for that purpose..." . The 2004 amendments also provide that a school district which is eligible for or has participated in the Safe School Facilities Loan and Grant Program or the Idaho Safe Schools Facilities Program under sections 33-804A, 33-1017 or 33-1613, Idaho Code is also eligible for participation in the Support Program so long as the district has met certain conditions specified in the statute.

The Idaho Legislature appropriated \$845,000 to the Support Program for the 2004 Fiscal Year, and \$2,000,000 to the Support Program for the 2005 Fiscal Year. The State does not anticipate that the Support Program will have any significant financial impact upon the State, its operations, or its ability to pay the principal of and interest on the Notes as the same become due.

OUTSTANDING OBLIGATIONS OF THE STATE

The State has no outstanding general obligation bond debt.

The Idaho Housing and Finance Association

The Idaho Housing and Finance Association (formerly Idaho Housing Agency) (the "IHFA"), an independent public body, corporate and politic, was created in 1972, by the Idaho Legislature under the provisions of Chapter 62, Title 67 of the Idaho Code, as amended (the "Act"). The Act empowers the IHFA, among other things, to issue notes and bonds in furtherance of its purpose of providing safe and sanitary housing for persons and families of low income residing in the State of Idaho, and, in addition, to coordinate and encourage cooperation among private enterprise and State and local governments to sponsor, build and rehabilitate residential housing for such persons and families.

The IHFA is governed by seven commissioners, appointed for alternating four-year terms by the Governor of the State, one of whom is selected chairman by the Governor. The Vice Chairman and Secretary-Treasurer are elected annually by the entire Board of Commissioners. The State Treasurer serves as an advisory Board member.

The IHFA has no taxing power and neither the State nor any political subdivision thereof is liable for its bond or other indebtedness. At the time of the IHFA's inception, the Idaho Legislature enacted a continuing appropriation of the State Sales Tax Account as additional collateral for designated bond issues or portions thereof. The Legislature has eliminated the continuing appropriations for all IHFA bonds issued on or after January 1, 1996.

No claims have ever been made by the IHFA for State sales tax funds and none are anticipated. The Association's mortgage loans are either guaranteed by Federal agencies, insured by private

mortgage guarantee policies or collateralized by the IHFA's net assets. The aggregate amount of bond debt supported by Idaho State Sales Tax totaled \$18.8 million and \$24.6 million at December 31, 2003 and 2002, respectively.

As of December 31, 2003, 94.79% of the total bond debt has been used to purchase single-family mortgages, 5.18% has provided the construction and permanent financing for multifamily developments.

As of December 31, 2003, the IHFA's outstanding bond indebtedness was \$1,598.6 million. Fund balances, including reserves, were \$169.1 million.

The Idaho Health Facilities Authority

Organized in 1972, the Idaho Health Facilities Authority ("the Authority") is an independent public body politic, and corporate, constituting a public instrumentality of the State of Idaho. The Authority is comprised of seven members appointed by the Governor to staggered five-year terms. The Executive Director is hired by and serves at the pleasure of the Authority members.

The Authority has the power, among others, to issue tax-exempt revenue bonds or notes and re-lend the funds to governmental and not-for-profit health facilities in Idaho to (a) finance and refinance outstanding indebtedness for health facilities and (b) provide additional facilities for the development and maintenance of public health, health care, hospitals and related facilities.

These debt instruments do not directly, indirectly, or contingently obligate the State or any political subdivision thereof to levy any form of taxation or to make any appropriations for the payment thereof and any such levy or appropriation is prohibited.

As of December 31, 2003, the total outstanding indebtedness of the Authority was \$628,998,076.

The Idaho State Building Authority

The Idaho State Building Authority (the "Authority") is a public corporation of the State established in 1974 by the State under the provisions of the Idaho State Building Authority Act. The Act empowers the Authority, among other things, to issue notes and bonds to finance construction or acquisition of facilities for lease to the State governmental bodies and community college districts with the approval of the Legislature.

The Authority is governed by seven commissioners appointed by the Governor to serve staggered five-year terms. The commissioners of the Authority, in turn, appoints an executive director.

Bonds, notes or other obligations of the Authority are not a debt or obligation of the State, nor of any department, board, commission, agency, political subdivision, body corporate and politic or instrumentality of or municipality or county within the State, nor shall the bonded debt be payable out of any funds other than those of the Authority. The Authority has no taxing power.

As of January, 31, 2004, the Authority's outstanding bond indebtedness was \$219,955,000.

OUTSTANDING DEBT OBLIGATIONS OF STATE MUNICIPALITIES

The State Treasurer's Office established and maintains the Idaho State Debt Repository (ISDR) under Idaho Code §67-1222, passed in 1989. The ISDR maintains current information about municipal offerings. This database is statewide in scope and maintains records on over 1,000 issuers.

IDAHO STATE LOTTERY

The Idaho State Lottery was established in 1989. Total sales for FY-2003 were \$98,168,854. Net proceeds for that year totaled \$20.5 million and are divided equally between the Permanent Building Fund, for use in carrying out State public works projects and the Public School Building Fund for distribution to Idaho's Public School Districts.

Idaho Code stipulates that the State Treasurer will invest Lottery receipts and the interest generated on the Lottery Account balance will be transferred to the General Fund. Interest earnings for FY-2003 were approximately \$437,800.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF IDAHO

The Public Employees Retirement System of Idaho ("PERSI") covers eligible employees who work 20 hours per week or more. The membership of PERSI includes employees of the State, including State colleges and universities, employees of political subdivisions, (e.g., counties, cities, hospitals) and local school districts. As of June 30, 2003, PERSI had 62,385 active members, 18,599 inactive (of whom 7,897 are entitled to vested benefits), and 24,991 annuitants. PERSI collects contributions from employees and employers to fund retirement, disability, death and separation benefits, as provided by Chapter 13, Title 59, Idaho Code.

As of July 1, 2003, because of continued poor investment markets the PERSI unfunded actuarial liability (UAL) exceeded the system assets by \$1,248.9 million, including the retiree COLA. In conformance with GASB Statement No. 25 the Actuarial Required Contribution (ACR) is 8.91% of pay compared to the actual contribution rate of 9.80% of pay. After actuarial review, the PERSI Retirement Board determined the current schedule of contribution rates will meet the normal cost of the system as they accrue, but will not fund the unfunded actuarial liability (UAL) within the statutory maximum periods of 25 years and has increased the employee and employer contribution rates accordingly. The funded ratio of the PERSI system (assets divided by the actuarial accrued liability) is 83.8% as of July 1, 2003. The Board did approve a discretionary COLA for retirees above the 1% required retiree COLA of 1.2% for a total COLA of 2.2%.

The employer contribution rate in effect on July 1, 2003 is 9.77% for general members and 10.01% for police officer members. With the exception of police and fire fighter members, the member contribution rate is 5.86% of salary. The employee contribution rate for police and fire fighters is 7.21% of salary. In order to fund the unfunded actuarial liability as required by law the PERSI Board approved an increase in the total contribution rate of 1% per year for each of the three fiscal years beginning July 1, 2004 (total increase in contributions of 3% of pay). This will increase the general member rate by 0.37%, of pay and the police officer member rate by 0.44% of pay for each of the three years. The general employer and police officer employer rate will increase by 0.62% of pay for each of the three years.

The PERSI actuary has confirmed that the current schedule of contribution rate will meet the normal costs of the system as they accrue.

IDAHO STATE INSURANCE FUND

The Idaho State Insurance Fund (the "Fund") was created in 1917 by the Idaho State Legislature to insure employers against liability under the Workers' Compensation Act. The Fund is an independent body corporate politic and is to be administered without liability on the part of the State (Idaho Code Section 72-901). The money in the Fund does not belong to the State and is not in the State Treasury within the meaning of article 7, section 13 of the Constitution (State v. Musgrave, 84 Idaho 77, 370 P.2d 778 [1962]). It is deposited with the State Treasurer as custodian and is held by the Treasurer as such for the contributing employers and the beneficiaries of the compensation law and for the payment of the costs of the operations of the Fund. All public employers are required by law to obtain their workers' compensation insurance through the State Insurance Fund or self-insure (Idaho Code Section 72-301). Private employers may, at their discretion, also procure workers' compensation insurance from the Fund.

As of December 31, 2003, the Fund had a surplus (fund balance) of \$82.9 million. The Fund has no bonded debt.

The manager, who is hired by the Board of Directors, administers the Fund. The Board is appointed by the Governor.

IDAHO PETROLEUM CLEAN WATER TRUST FUND

The Idaho Petroleum Clean Water Trust Fund (the "Trust Fund"), is a not-for-profit State entity created in 1990 by the Legislature to indemnify tank owners and operators from petroleum storage tank releases. In March 2003 House Bill 132 was signed into law. The law creates a Board of Trustees, appointed by the Governor, to direct the policies and operations of the Trust Fund. The Idaho State Insurance Fund, at the pleasure of the Board of Trustee, will act as the administrator for the Trust Fund. Statutorily, neither the Fund nor the State has any liability for the Trust Fund's obligations (Idaho Code Section 41-4904(7)).

As of December 31, 2003, the Trust Fund had fund balances of \$31.5 million. The unencumbered fund balance is \$27.5 million. The Trust Fund has no bonded debt.

TAX EXEMPTION

General. In the opinion of Moore Smith Buxton & Turcke, Chartered, Boise, Idaho, Bond Counsel, interest on the Notes is excluded from gross income subject to federal income taxation under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), provided the requirements of the Code described in this section under the heading "Continuing Requirements" are complied with.

The Notes are not private activity bonds and interest on the Notes is not an item of tax preference for purposes of determining alternative minimum taxable income for individuals or corporations under the Code. However, interest on the Notes is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55

of the Code as more fully described in this section under the heading "Certain Federal Income Tax Consequences."

Except as described herein, Bond Counsel expresses no opinion as to any federal, state or local tax consequences arising with respect to ownership of the Notes.

Continuing Requirements. The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Notes, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Note proceeds and the facilities financed or refinanced with such proceeds, limitations on the investment of Note proceeds prior to expenditure and a requirement that excess arbitrage earned on the investment of Note proceeds be paid periodically to the United States. The Issuer has covenanted in the Note documents that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Issuer contained in the Note documents pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Notes for federal income tax purposes and, in addition, will rely on representations by the Issuer with respect to matters solely within the knowledge of the Issuer, which Bond Counsel has not independently verified. If the Issuer should fail to comply with the covenants in the Note documents or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Notes could become taxable from the date of delivery of the Notes, regardless of the date on which the event causing such taxability occurs.

Certain Federal Income Tax Consequences. The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular Note holders. Prospective owners of the Notes, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Notes, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Alternative Minimum Tax on Corporations. Section 55 of the Code imposes an alternative minimum tax on corporations equal to the excess of the tentative minimum tax for the taxable year over the regular tax for such year. The tentative minimum tax is based upon alternative minimum taxable income which is regular taxable income with certain adjustments and increased by the amount of certain items of tax preference. One of the adjustments is 75 percent of the amount by which a corporation's adjusted current earnings exceeds the corporations alternative minimum taxable income (determined without regard to such adjustment and the alternative tax net operating loss deduction). Interest on tax-exempt obligations, such as the Notes, is included in a corporation's adjusted current earnings.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for small business corporations that had average gross receipts of less than \$5 million for the 3-year period beginning after December 31, 1994, and such small business corporations will continue to be exempt from the corporate alternative minimum tax so long as their average gross receipts do not exceed \$7.5 million.

Financial Institutions. The Code denies banks, thrift institutions and other financial institutions a deduction for 100% of their interest expense allocable to tax exempt obligations, such as the Notes.

Borrowed Funds. The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or when carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. The deduction for loss reserves for property and casualty insurance companies is reduced by 15 percent of the sum of certain items, including the interest received on tax-exempt bonds, such as the Notes.

Social Security and Railroad Retirement Benefits. The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest that is exempt from federal income tax.

Branch Profits Tax. Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Notes.

S Corporations. Certain S corporations that have subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25% of which are passive investment income, which includes interest on tax-exempt obligations, such as the Notes, may be subject to a tax on excess net passive income.

In the opinion of Bond Counsel, interest on the Notes is excluded from gross income under present State of Idaho personal income taxation.

CONTINUING DISCLOSURE UNDERTAKING

The State has covenanted in the Plan of Financing that it will provide, in a timely manner, to the Municipal Securities Rulemaking Board (“MSRB”) or to each Nationally Recognized Municipal Securities Repository (“NRMSIR”) recognized by the Securities and Exchange Commission (“SEC”), notice of the occurrence of any of the following events with respect to the Notes: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financing difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Notes; (7) modifications to rights of Noteholders; (8) Note calls; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Notes; or (11) rating changes.

The State will also provide notice in a timely manner to the MSRB if the State has materially failed to comply with its disclosure undertakings. The State has never failed to comply with a prior written continuing disclosure undertaking made pursuant to SEC Rule 15c2-12.

The currently recognized NRMSIRs include Standard & Poor's J.J. Kenny, 55 Water Street, 45th Floor, New York, New York 10041; Bloomberg Financial Markets, 100 Business Park Dr., Skillman, New Jersey 08558-3629; DPC Data, Inc., One Executive Drive, Fort Lee, New Jersey 07024; Interactive Data, 100 William Street, New York, NY 11038.

The continuing disclosure undertakings described above have been made for the benefit of the Noteholders. Noteholders may enforce specific performance of the undertakings by any available judicial proceeding. However, the failure of the State to perform the undertakings hereunder shall not constitute an event of default with respect to the Notes or result in monetary damages.

APPROVAL OF LEGALITY

The legal matters incident to the authorization, issuance and sale of the Notes and with regard to the tax exempt status thereof as described under the caption "Tax Exemption" are subject to the approving opinion of Moore Smith Buxton & Turcke, Chartered, bond counsel. The form of the approving opinion of bond counsel is set forth in Appendix C to the Official Statement. Certain matters will be passed upon for the State by the Attorney General of the State.

RATING

Moody's Investors Service, Standard and Poor's Corporation and Fitch have assigned the 2004 Notes the rating of MIG-1, SP-1, and F1+ respectively. An explanation of the significance of such rating may be obtained from the rating agency. The State has furnished certain information and materials with respect to the State and the Notes to the rating agencies. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the credit rating may have an adverse effect on the market price of the Notes.

UNDERWRITING

Zions First National Bank (the "Underwriter") has agreed, subject to certain conditions, to purchase all of the Notes from the State at a price equal to \$233,033,700 plus accrued interest, if any, and will re-offer the Notes at a price of \$233,206,200 plus accrued interest, if any. The underwriting spread on the Notes is \$0.75 per \$1,000 of principal. The Underwriter has advised the State that the Notes may be offered and sold to certain dealers (including dealers depositing the Notes into investment trusts) at prices lower than the initial public offering prices set forth on the cover page of the Official Statement and that such public offering price may be changed from time to time.

MISCELLANEOUS

All summaries herein of the provisions of the Constitution of the State of Idaho, acts of the State Legislature, other documents and instruments and of the Notes are made subject to all the detailed provisions and judicial interpretations thereof to which reference is hereby made for further information. Such summaries do not purport to be complete statements of any or all of such provisions.

All estimates and assumptions in the Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, executed and delivered by the State.

/s/
Ron G. Crane, State Treasurer

Dated:

APPENDIX A

SELECTED DATA ON THE STATE OF IDAHO

Idaho State Government

State Government in Idaho originates from the State Constitution adopted at the constitutional convention of August 6, 1889, and ratified by the people in November of the same year. Congress approved the Constitution and admitted Idaho to the Union on July 3, 1890.

The Executive Department

The Idaho Executive Department consists of seven constitutionally empowered elected officials-- Governor, Lieutenant Governor, Secretary of State, State Controller, State Treasurer, Attorney General, and Superintendent of Public Instruction.

The Governor is vested with the "supreme executive power." The Governor appoints department heads and members of boards and commissions. In extraordinary occasions, the Governor can convene special sessions of the Legislature. The Governor gives final approval, by signing, of bills passed by the Legislature, and has the power to veto bills but must list the objections. The Legislature can override a veto by a two-thirds vote of each chamber.

The Lieutenant Governor presides over the State Senate and, when the Governor is absent from the State, serves as Acting Governor. In case of vacancy for any reason in the Governor's office, the Lieutenant Governor succeeds to that office.

The Secretary of State is primarily a ministerial official. The Secretary of State is the custodian of records, including those of corporations, and of the Great Seal of the State of Idaho. The Secretary of State is the State's Chief Election Officer and has administrative duties as a member of the Board of Examiners, the State Land Board, and State Board of Canvassers.

The State Controller, as Chief Accounting Officer, is responsible for the accounting records, and is the State's cash disbursement officer. The Controller is also responsible for maintaining the statewide system of internal control procedures. The Controller is the State Administrator of Social Security, a member of the State Land Board, ex officio Secretary of the Board of Examiners, and a member of the State Board of Canvassers.

As Idaho's Chief Financial Officer, the State Treasurer receives all State revenues and fees, and is cash manager and investor for all State revenues. The State Treasurer pays all State bills by redeeming State warrants, and is custodian of the Worker's Compensation Fund and the Public School Endowment Fund. The State Treasurer also is a member of the State Board of Canvassers, and serves as advisor to the Idaho Housing and Finance Association.

The Attorney General is the Chief State Legal Officer and represents State officers and agencies in legal matters. The Attorney General must provide legal opinions in writing when requested by government officials. The Attorney General is required to supervise all county prosecuting attorneys and to assist them in law enforcement if they so request. The Attorney General is in charge of consumer protection laws and has jurisdiction to enforce State antitrust laws. The Attorney General is a member of the Board of Examiners and the State Land Board.

The State Superintendent of Public Instruction is an ex-officio and voting member of the State Board of Education, the executive officer of the State Department of Education and advisor to school districts on all aspects of education. The State Superintendent also is a member of the Endowment Funds Investment Board and of the State Land Board and serves as ex-officio member of the State Library Board.

Description of Area

Idaho, located in the northwestern portion of the United States, is bordered by Washington, Oregon, Nevada, Utah, Wyoming, Montana and Canada. Idaho's land area consists of 82,751 square miles of varied terrain including prairies, rolling hills and mountains with altitudes ranging from 736 feet to 12,662 feet. The rugged beauty of the land and easy access to many outdoor activities such as boating, fishing, hunting and skiing help to make tourism and recreation a growing industry.

Although located in the arid West, Idaho has enormous water resources which have dominated its history and development and may prove equally important to its future. There are 26,000 miles of rivers and streams and more than 2,000 natural lakes. Three of Idaho's rivers--the Clearwater, the Kootenai and the Salmon--are more than half as large as the Colorado. The Snake River Plain Aquifer is one of the largest fractured basalt aquifers in the world. Equally important to quantity is the quality of Idaho's waters, which remains outstanding. The drop in elevation of rivers like the Snake allow valuable hydropower production, affording the State some of the lowest electricity rates in the nation.

Idaho enjoys a broad base of economic wealth ranging from extensive mining and timber resources to notably-productive agricultural lands which are benefited by a highly-developed series of man-made reservoirs and irrigation systems. More than four million acres are irrigated in the Snake River Basin, placing Idaho fourth in the nation for irrigated acreage.

Idaho traditionally has been an agricultural State. Livestock, beef, dairy cattle, and sheep are important to the economy, while the major crops of Idaho's farmers include potatoes, wheat, barley, sugar beets, peas, lentils, seed crops and fruit. Major manufacturing industries include food processing, forest products, phosphate processing, and electronics. Mining has played an important role in the development of the State with phosphate rock, silver, lead, zinc and molybdenum among the resources mined.

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IDAHO ECONOMIC OVERVIEW AND OUTLOOK

Based On The *IDAHO ECONOMIC FORECAST*

The forecast period is the fourth quarter of 2003 through the fourth quarter of 2007. The *Idaho Economic Forecast* is published by the State of Idaho, Division of Financial Management and Economic Analysis Bureau, Michael H. Ferguson, Chief Economist and Derek E. Santos, Economist. The *Idaho Economic Forecast* can be accessed at http://www.state.id.us/dfm/econ_pub.html.

In January 2004, it was predicted that Idaho's economy had finally turned the corner in 2003 toward stronger growth. This is still true. However, recent historical data and changes to the national forecast suggest the former projections may have been slightly optimistic, so the current Idaho economic outlook has been lowered accordingly. To summarize, Idaho is still expected to achieve the economic milestones set in the previous forecast, but it will take slightly longer to reach them.

In the previous forecast, it was anticipated Idaho nonfarm employment would expand 1.0% in 2003. This growth hinged on a relatively healthy showing in the second half of 2003. However, new Idaho employment data show Idaho nonfarm employment grew slower than had been previously projected. Specifically, it advanced at a 0.2% annual rate in the third quarter of 2003 and 0.5% rate in the fourth quarter. In comparison, Idaho nonfarm employment was previously forecast to expand 2.6% in 2003's third quarter and 1.3% in the fourth quarter. As a result of the slower growth, last year's Idaho nonfarm employment was about 571,500, which is nearly 2,100 lower than had been previously estimated.

The new data has lowered the starting point of the forecast. However, it is just one factor influencing future employment levels. In the current forecast, nonfarm employment growth rates in 2004 and 2005 fail to match their previously predicted paces. Specifically, instead of averaging 1.6% in 2004 and 2005, Idaho nonfarm employment growth should average 1.4% over those two years. As a result, Idaho nonfarm employment is expected to be 587,844 in 2005; or about 3,900 below the previous prediction. This should be the widest gap between the current and previous employment forecasts.

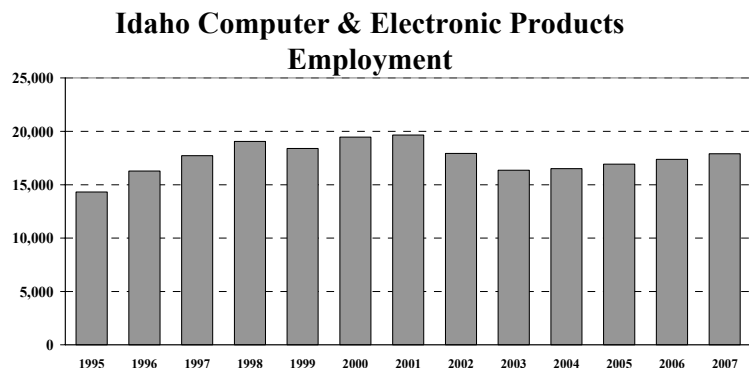
Beginning in 2006, the gap between the two forecasts narrows. This occurs because over the last two years of the forecast, Idaho's nonfarm employment grows faster than in the previous forecast. The pace of annual job growth is expected to accelerate from 1.4% in 2004 and 2005 to 2.1% in 2006 and 2007. This is slightly faster than the 1.8% average forecast for these two years in January 2004. Thanks to this faster growth, employment makes up most of the ground lost in the previous years. In 2007, Idaho nonfarm employment is forecast to be 613,312, which is just 238 shy of the previous estimate for that year.

Idaho nominal personal income displays a similar pattern as nonfarm employment. Namely, it grows slightly slower in 2004 and 2005 than its predecessor, but advances faster in 2006 and 2007. As a result, Idaho nominal employment is \$43.5 billion in 2007, compared to the previous estimate of \$43.6 billion.

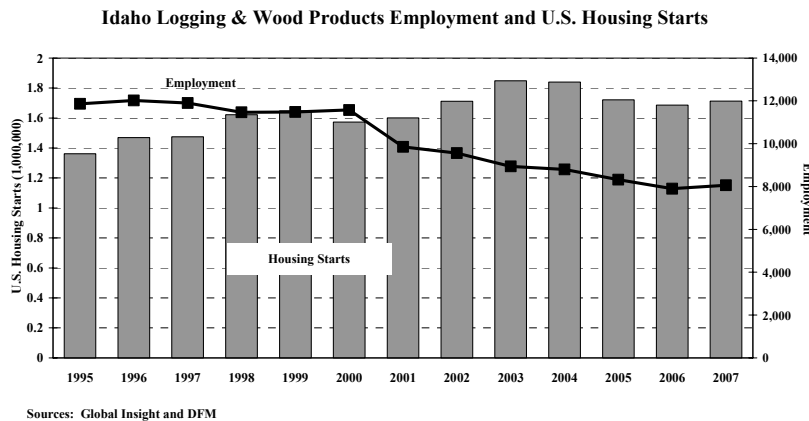
SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: After contracting in both 2002 and 2003, employment in Idaho's computer and electronics sector is expected to expand over the forecast period. The employment recovery began at the end of last year when employment rose for the first time since the beginning of 2001. In order to gain an appreciation for this turnaround, a short history of the State's largest manufacturing employment sector is in order. This sector's employment

peaked at nearly 20,700 in the first quarter of 2001 then shed over 4,500 jobs over 10 quarters. Its woes can be traced to the fallout from the bursting high-tech bubble. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% from 1995 through 1999. Unfortunately, investment spending dropped well below the previous year's pace in 2000, and slipped even further in 2001. In that year real investment in computers retreated for the first time since 1990 and investment in communications equipment also declined for the first time in a decade. Because the State's high-tech firms have strong ties to these sectors, the fallout from the bust has been felt in Idaho. In 2001, Jabil Circuit, Micronpc.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard had all announced layoffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the worse was yet to come. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. It is not difficult to understand how hard this sector was hit. Four of the seven Idaho companies reporting layoffs of at least 100 persons in 2002 were high-tech firms. These seven companies laid off 1,515 employees in 2002, with the four high-tech companies accounting for 1,104 (73%) of the total decline. That same year, Jabil Circuit announced it was halting its Idaho operations and was putting its two-year old Meridian plant up for sale. One notable exception to the list of companies with significant layoffs was Micron Technology, the State's largest high-tech employer. However, it joined the ranks of companies laying off employees in early 2003 when it cut about 1,100 Idaho jobs. After three years of dismal conditions, several factors suggest the outlook for this sector is improving. It appears the worst may be over. After declining in 2001 and 2002, real investment in equipment and software should advance over the next few years, with 2004 showing the most promise. This recovery partly reflects the replacement demand for computers and peripheral devices. Computer systems and software purchased during the last expansion are becoming technologically obsolete, therefore many are in the process of being upgraded and/ or replaced. In addition, the high-productivity returns for investing in computers should boost demand. Companies wanting to make these investments have found it relatively easy thanks to low interest rates, attractive depreciation treatment, and improved corporate cash flow. The return of investment suggests cautious optimism is in order, and Idaho high-tech firms are expected to expand. Another positive sign is computer memory prices have risen recently. This is welcome news for Idaho's Micron Technology, who is one the world's largest producers of memory devices. The company recently returned to profitability after 13 quarters of losses, and company officials project the



company will be in the black during fiscal year 2004. However, the company is not expected to rehire all of the employees it laid off in 2003. Instead, it plans to fill only mission-critical positions. Employment in Idaho's computer and electronics sector is expected to expand beginning this year. However, growth rates will not approach those experienced during the years leading up to 2000. Instead, employment should advance 2.3% annually over the 2004-2007 period.



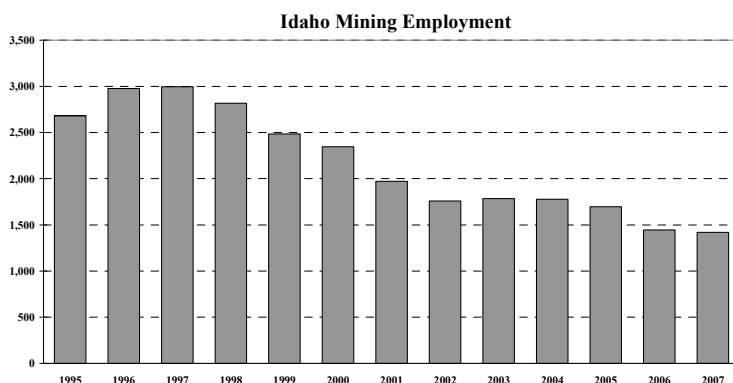
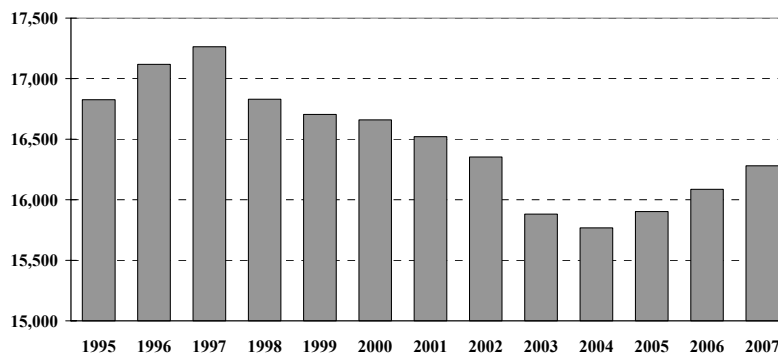
Logging and Wood Products: Idaho's lumber and wood products employment is expected to struggle over most of the forecast period. This sector's employment last peaked at nearly 11,600 jobs in 2000, but has fallen every year since then. In 2003 there were just under 9,000 jobs left in this sector. What makes this

decline especially disappointing is a large part of it took place during a period of strong demand. Traditionally, Idaho lumber and wood products employment has been driven by demand. A strong U.S. housing market meant strong demand for wood products, which increased employment. A weak housing market usually resulted in lower employment. The recent paradox of a strong housing market with weak employment is explained not by demand, but by supply. According to one of the industry's most highly regarded publications, *Random Lengths*, "The bull markets of the late 1990s led to some capital investment in manufacturing capacity. Production capacity coincided with a crash in export markets and a rise of offshore imports. All this combined to push prices to a 10-year low during a housing boom. American producers were further hampered in their ability to compete by the strong dollar." It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America and Canada. Ironically, the industry's problems have been compounded by the dearth of timber available from federal lands. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the State total. In comparison, federal lands in Idaho yielded just 102.3 mbf a decade later, which was less than 10% of the total harvest. These supply problems have exacted a high toll in Idaho. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill this fall, putting about 140 people out of work. The company sold its Moyie Springs mill to Riley Creek, but not all of the former employees found jobs with the new owners. In early October Stimson Lumber informed 67 employees at its Atlas mill they were being permanently laid off. Idaho lumber and wood products employment is forecast to continue sliding through 2007 before posting a modest (2.1%) gain in 2007.

Food Processing: It appears that Idaho's second largest manufacturing employer may finally be on the road to recovery after declining for several years. The state's food processing sector has been shedding jobs since 1997. This prolonged downturn has raised fears the industry's problems may be structural instead of cyclical. This fear arose from the closure of several food processing

plants. For example, Simplot recently shuttered its Heyburn potato processing plant. The plant was built in 1960 and had run continuously since that time. Unfavorable business conditions caused Simplot to also close its Nampa meat packing plant in the fall of 2003. Nearly 360 jobs were lost when the plant was idled. J.R. Simplot Company recently opened its newest plant in Canada. In recent years, Canada has become a major player in the processed potato market. For example, it has been reported that the U.S. became a net importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. This has raised fears about this industry's future in Idaho. If processors plates were not already full, they are also dealing with weak demand for their products. Weak demand is a temporary problem that should reverse itself over the forecast period. Likewise, Idaho food processing employment should post a slow recovery.

Idaho Food Processing Employment



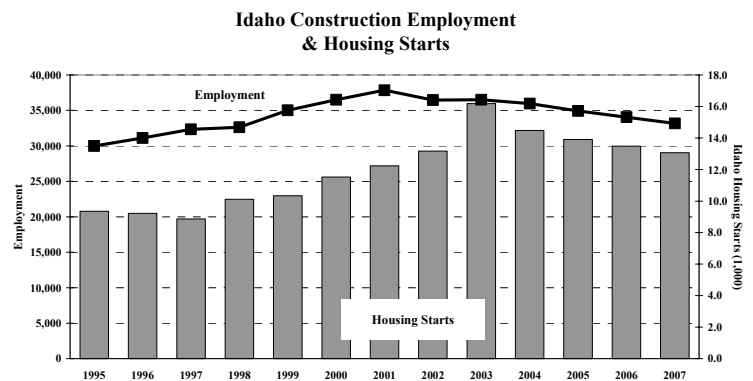
Mining and Chemicals: The Gem State's mining and chemical sectors are anticipated to experience continued hard times over the forecast horizon. The fortunes of these resource-based industries have long been subject to the rise and fall of the business cycle. These ebbs and flows can easily be seen in each sector's employment history. For example, Idaho mining employment fell from the

beginning of 1991 until it hit a trough in 1993. Employment hit its next peak in 1997. The mining sector has been shedding job since then. While it is easy to see the cyclical changes, the scarcity of data makes it harder to see the long-term trend. The new NAICS-based data have many advantages over the older SIC-based data, but it does have a major shortcoming. The detailed NAICS history only goes back to 1991, whereas the SIC data went back to 1969. However, the declining mining employment trend was evident in the SIC-based data, even before the adoption of the NAICS data. Generally, it showed that in recent years each job peak was lower than the previous one while each job trough was deeper than its predecessor. Unfortunately, the current mining cycle has yet to find its nadir and Idaho mining employment is

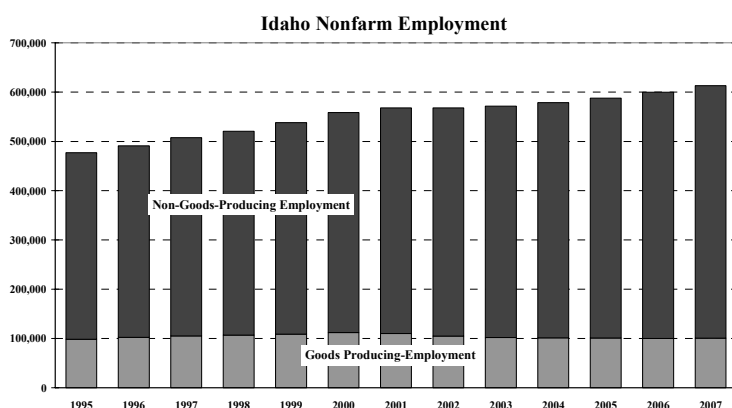
not expected to regain the ground it has lost. To do this, several mines would have to reopen. Unfortunately, current business conditions do not seem conducive to reopening mines. The combination of soft demand and the negative trend is expected to force Idaho mining employment to drift further down over the forecast period. Specifically, it is anticipated to drop from 1,785 in 2003 to 1,420 in 2007. The State's chemical sector's journey has been different than the mining sector. It has not experienced the wide employment swings of the mining sector. In fact, it has strayed little from the 2,300-job mark since 1995. However, this changed drastically when the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello closed in 2002. Idaho chemical employment dropped from 2,385 jobs in the second quarter of 2001 to 1,943 jobs a year later. Like the State's reeling mining sector, chemical sector employment is not expected to recover these losses over the forecast period.

Construction: The outlooks for the state's housing starts and construction employment have improved since the last *Forecast* was published. Part of this increase was the unexpected strength both sectors displayed late last year. For example, it was previously forecast Idaho housing starts would shrink in the last quarter of 2003 after surging to 16,398 units in that year's third quarter. This spike was believed to

be a unique phenomenon, thus the return to more normal levels of activity in the fourth quarter. However, history has proven this assumption wrong. According to more current data, Idaho housing starts actually grew at a healthy 18.5% annual rate in 2003's fourth quarter, to nearly 17,470 units. Single-unit housing construction accounted for all of this growth, advancing by a 41.9% annual rate. The number of multi-unit housing actually shrank at a 63.0% annual rate during this same period. Not surprisingly, Idaho construction employment followed a similar path. Instead of falling as had been previously forecast, it actually expanded slightly in the last quarter of 2003. The late-year growth spurts for housing and construction employment were considered when preparing the new forecasts, but so were other factors. In general, both Idaho housing and construction employment are expected to be slightly stronger than previously forecast. The revised historical data had its largest impact on the starting levels for the forecast. For example, the new data suggest there were about 3,000 more units started in the fourth quarter compared to the previous forecast. However, while housing activity was strong at the end of 2003, its performance was exaggerated by seasonal factors. Housing starts are typically at their lowest point of the year in the winter quarter because of inclement weather. Thus, it is typically boosted by a seasonal factor to account for this seasonal drop. However, if activity is unusually strong, the seasonal factor boost levels too high. This is probably what happened at the end of last year, so the starting point for housing starts in the first quarter of 2004 was set at just under 15,000 units. While this represents a 46.0% annual decline from the last quarter of 2003, it is significantly above the 13,301 units that were forecast previously. As was the case in the last forecast, Idaho housing starts are expected to decline over the forecast period. However, housing declines less steeply compared to the previous forecast. Specifically, it falls an average of 5.2% in the current forecast versus 7.7% in the previous one. The improved forecast reflects the already-mentioned stronger historical data, continued low interest rates, and the more robust



population growth. The stronger housing outlook causes Idaho construction employment to improve compared to the previous forecast.



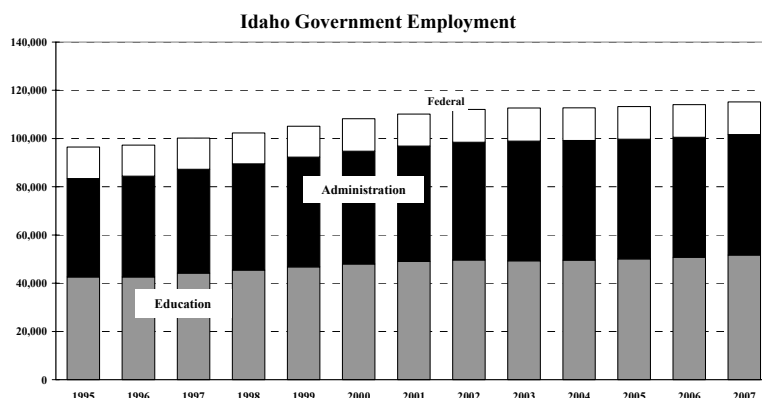
Nongoods-Producing

Industries: Most of the state's nonfarm jobs are categorized as nongoods-producing jobs. In 2003, this sector accounted for over 80% of all nonfarm jobs in Idaho. Much of this owes to the sheer number of large job categories that come under the nongoods-producing moniker. For example, two of the largest nongoods employers are services and

trade. Together they account for three fourths of nongoods-producing employment, or over 60% of Idaho total nonfarm employment. The services category is the larger of the two categories and accounts for the lion's share of employment. There were nearly 260,000 service-related jobs in Idaho in 2003 versus just under 97,000 trade-related jobs. The services sector can be split into its various components. The three largest services components are: professional and business services (70,172); education and health services (62,550); and leisure and hospitality services (54,202). The outlook for professional and business employment resembles the overall job outlook. That is, its growth should pick up steam over time. Education and health services employment should benefit from a couple of population trends. First, is the faster-than-average growth of Idaho's population. Second, is the aging of the population. Both of these factors place increased demands on the health industry. The forecast calls for leisure and hospitality employment to continue expanding through 2007. However, several factors create uncertainties about how well it will perform in the short term. On the plus side, domestic tourism is expected to benefit from the weak dollar, high airline fares for international travel, and fears about traveling abroad. On the minus side, Idaho travel could be hampered this summer by record-high gasoline prices and a limited water recreation season caused by the low mountain snowpack. The next group of service categories consists of sectors with employment of around 20,000 each. Financial services; transportation, warehousing, and utilities; and other services make up this group. The smallest sector is information services with about 9,200 jobs in 2003. These sectors will benefit from the expected increase in call center hiring. This marks a welcome change from the recent series of call center closings. Major players, such as T-Mobile, Verizon, Qwest, and Citicard, are either in the process of expanding or have announced expansion plans. These have been incorporated into the current forecast. The trade category can be divided into its retail and wholesale pieces, with retail being the larger of the two sectors. Since retail is closely tied with tourism, it will be interesting to see how well it weathers the factors affecting the hospitality and recreations category. For example, it remains to be seen whether the weaker dollar will lure Canadian shoppers back into northern Idaho shops or whether high gasoline prices will keep them home. Professional and business services employment should increase an average of 3.6% per year. Education and health services should grow 3.4% annually. The number of information services jobs should grow 3.3% annually. It will be followed by leisure and hospitality services, which is anticipated to advance 2.9%. Other services should advance 2.2% yearly. Financial services employment growth is projected to average 1.9%, while transportation, warehousing, and utilities are expected to average 1.2% growth. The trade sector can also be broken out this

way. Retail trade should average 2.4% growth over the forecast period, while wholesale trade advances at a 1.6% yearly pace. Overall, total employment in Idaho's nongoods-producing sector is forecast to rise 1.4% in 2003, 1.6% in 2004, 2.1% in 2005, 2.6% in 2006, and 2.6% in 2007.

Government: The employment outlook for Idaho's State and local government sector over the forecast period has improved slightly. This change primarily reflects the influence of two factors. The first factor affecting the forecast is the availability of additional historical employment data. These new data suggest Idaho State and local employment was weaker than anticipated in the second half of 2003. Specifically, it was projected



in the January 2004 *Idaho Economic Forecast* state and local employment would expand at a 1.9% annual rate in the third quarter of 2003 and by a 0.2% rate in the fourth quarter, bringing the job total to 99,975 at the end of that year. This has been lowered to 98,597 in the current forecast because the new historical data suggest state and local government employment actually shrank during the second half of the year instead of expanding. Obviously, this lowers the starting point for the forecast. As a result, if nothing else changed, Idaho State and local employment would be lower throughout the forecast period. However, something has changed that causes this sector's employment to grow faster than had been previously forecasted. Specifically, the State's population growth rate has been increased. This change was made to reflect better the State's actual population growth. In the past, Idaho's population growth was expected to slow toward the national rate of about 1.0% over the forecast period. However, recently released population estimates suggest the Gem State's population growth rate is not falling as steeply as had been previously forecasted. For example, the population has averaged over 1.5% growth over the 2000 to 2003 period. In 2003 alone the population grew an estimated 1.6%. This was well above the previously forecasted rate of 1.0%. After several years of underestimating the State's population growth, it was decided to raise the expected future growth rates. Specifically, it was previously forecast Idaho's population would expand 1.0% annually over the 2004-2007 period. In the current forecast, the population increases 1.5% this year and next, 1.4% in 2006, and 1.5% in 2007. As a result of this faster growth, the Gem State's population is projected to be 1,444,500 in 2007, compared to the previous estimate of 1,409,000. The education category is most affected by the stronger population growth. Specifically, Idaho education employment averages 1.2% annual growth over the forecast period, compared to the previous estimate of 0.7% annual growth. The current forecast shows non-education employment rising an average of 0.18% per year, versus the previous forecast of 0.25%. It should be pointed out that local governments' ability to increase payrolls is restricted by State-mandated budget caps. Federal government employment in Idaho is the sector least affected by the revised population numbers. As in the previous forecast, this job category is expected to shrink slowly over the next few years.

TABLE 14

TABLE 15

TABLE 16

TABLE 17

TABLE 18

TABLE 19

APPENDIX B
PLAN OF FINANCE

STATE OF IDAHO
TAX ANTICIPATION NOTES, SERIES 2004
PRINCIPAL AMOUNT \$230,000,000

RON G. CRANE, the duly elected, qualified, and acting Treasurer of the State of Idaho, hereby certifies as follows:

ARTICLE I

DEFINITIONS AND PURPOSE

Section 1.1: DEFINITIONS

As used in this document, the following terms shall have the following definitions:

Act means Title 63, Chapter 32, Idaho Code, pursuant to which the Notes are authorized, issued, and sold.

Authenticating and Paying Agent means a national bank doing business in New York, New York, appointed by the State Treasurer pursuant to Section 3.5 of this Plan in the event that Certificated Notes are issued.

Beneficial Owner(s) means the owners or Holders of Notes whose ownership is recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries in the Book-Entry-Only System of the Depository.

Board of Examiners means the State Board of Examiners created pursuant to Article IV, Section 18, Idaho Constitution, and Chapter 20, Title 67, Idaho Code.

Book-Entry-Only System means the system of recordation of ownership of the Notes on the books of the Depository pursuant to Article III of this Plan.

Certificated Note(s) means a Note or Notes evidenced by a printed certificate or certificates in the event that the Book-Entry-Only System is discontinued.

Code means the Internal Revenue Code of 1986, as amended.

Depository means The Depository Trust Company, New York, New York, its successor corporation, or such other depository as may subsequently be designated by the Treasurer.

Escrow Agent means U.S. Bank National Association, Salt Lake City, Utah, as escrow agent for the Note Payment Account designated pursuant to Section 2.6 of this Plan, and as paying agent for the Notes, so long as the Notes are issued in book-

entry-only form, designated pursuant to Section 3.1 of this Plan.

Escrow Agreement means the escrow agreement between the State Treasurer and the Escrow Agent substantially in the form of Exhibit "E" which is annexed hereto and by reference made a part of this Plan.

Fiscal Year means the 2004-2005 fiscal year of the State, commencing on July 1, 2004, and ending on June 30, 2005.

General Fund means the general fund of the State.

General Tax Revenues means income and revenue from taxes, whether specific, ad valorem, excise, income, franchise, or license.

Global Note(s) means the typewritten Note or Notes in the aggregate principal amount of the Notes, dated as of the date of delivery of the Notes, and registered in the name of the Nominee.

Governor means the Governor of the State of Idaho.

Holder or Holders means (i) so long as the Book-Entry-Only System is in effect, the Beneficial Owners, or (ii) in the event that the Book-Entry-Only System is discontinued, the holders of Certificated Notes.

Letter of Representations means the Blanket Issuer Letter of Representations between the State Treasurer and the Depository, relating to the Book-Entry-Only System, substantially as set forth in Exhibit "D" which is annexed hereto and by reference made a part of this Plan.

Nominee means Cede & Co. as nominee for the Depository, or such nominee as the Depository may substitute therefor.

Note Payment Account means the "Tax Anticipation Notes, Series 2004, Note Payment Account" within the Tax Anticipation Note Redemption Fund of the State created by Section 63-3203, Idaho Code, established pursuant to Section 2.6 of this Plan.

Notes means the State of Idaho Tax Anticipation Notes, Series 2004, issued in the principal amount of \$230,000,000.

Official Statement means the disclosure statement relating to the Notes, jointly approved by the State Treasurer and the Underwriter, and includes the Preliminary Official Statement.

Participant or Participants means banks and broker-dealer participants and correspondents, including indirect participants, that are related to entries on the Book-Entry-Only System of the Depository.

Plan means this Plan of Financing, dated June 23, 2004, authorizing the issuance, sale, and delivery of the Notes.

Preliminary Official Statement means the preliminary disclosure statement relating to the Notes, jointly approved by the State Treasurer and the Underwriter.

Purchase Contract means the Note Purchase Contract, dated June 22, 2004, between the State and the Underwriter, providing for the sale of the Notes, substantially in the form of Exhibit "A" which is annexed hereto and by reference made a part of this Plan.

Secretary of State means the Secretary of State of the State of Idaho.

State means the State of Idaho.

State Controller means the State Controller of the State of Idaho.

State Treasurer means the State Treasurer of the State of Idaho.

Underwriter means Zions First National Bank.

Section 1.2: PURPOSE

The Notes are being issued pursuant to the Act for the purpose of providing funds for the payment of current expenses in anticipation of the receipt of General Tax Revenues for the Fiscal Year. This document shall constitute the Plan of Financing (the "Plan") of the State Treasurer required pursuant to Section 63-3202(2), Idaho Code, and the order of the State Treasurer required by Section 63-3202(3), Idaho Code, in connection with the issuance, sale, and delivery of the Notes.

ARTICLE II

THE NOTES

Section 2.1: The Notes are to be issued, sold, and delivered in accordance with the Act and the Purchase Contract. The maximum principal amount of Notes which may be outstanding at any one time under this Plan is \$230,000,000. In accordance with the March 9, 2004, approval of the Board of Examiners for the issuance of not to exceed \$1,536,862,500 Tax Anticipation Notes, the State Treasurer reserves the right to file one or more additional Plans of Financing under the authority of the Act during the Fiscal Year.

Section 2.2: The Notes shall be issued in accordance with the Book-Entry-Only System described hereinafter in the form of not more than two typewritten Notes (the "Global Notes") in the aggregate principal amount of \$230,000,000, shall be dated as of their date of delivery, shall mature on June 30, 2005, shall bear interest from their date at a fixed rate of 3.00% per annum until paid, calculated on the basis of a thirty-day month and a 360-day year, such interest being payable at maturity, and shall

be substantially in the form of the Global Note which is annexed hereto as Exhibit "B" and by reference made a part hereof. The Notes shall not be subject to redemption prior to their stated maturity.

Section 2.3: The Notes shall be issued in anticipation of the General Tax Revenues to be received by the State during the fourth quarter of the Fiscal Year, and the Notes shall be secured by an irrevocable pledge of the income and revenues from the taxes so anticipated. Each Note so issued shall recite that it is a valid and binding obligation of the State, and that the faith and credit of the State is solemnly pledged for the payment of the principal thereof and interest thereon in accordance with its terms and the Constitution and laws of the State.

Section 2.4: The Notes shall be registered prior to their issuance in the office of the State Controller. A legend to that effect shall appear on the Global Notes and, in the event that the Book-Entry-Only System is discontinued, on each Certificated Note.

Section 2.5: The Notes shall be payable in accordance with the provisions of the Book-Entry-Only System as set forth in Article III of this Plan. In the event that the Book-Entry-Only System is discontinued and Certificated Notes are issued, the Notes shall be payable, principal and interest, on their maturity date, at the office of the State Treasurer, at Boise, Idaho, or, at the option of the Holders of the Certificated Notes, at the principal corporate trust office of the Authenticating and Paying Agent, New York, New York, which is hereby designated, pursuant to Section 67-1221, Idaho Code, as alternative fiscal agent for the State and alternative place of payment of principal of and interest on the Certificated Notes.

Section 2.6: There is hereby established within the Tax Anticipation Note Redemption Fund of the State, created by Section 63-3203, Idaho Code, the Tax Anticipation Notes, Series 2004, Note Payment Account (the "Note Payment Account") for the payment of the principal of and interest on the Notes. The Corporate Trust Department of U.S. Bank National Association, Salt Lake City, Utah, is hereby appointed as escrow agent (the "Escrow Agent") in accordance with the Escrow Agreement which is annexed hereto as Exhibit "E" and by reference made a part of this Plan. The Note Payment Account shall be held and invested at the direction of the State Treasurer by the Escrow Agent pursuant to the provisions of the Escrow Agreement.

Section 2.7: The Notes are hereby sold to the Underwriter in accordance with the Purchase Contract, at a purchase price of \$233,033,700 plus accrued interest, if any.

Section 2.8: As provided in Section 63-3202(b), Idaho Code, immediately upon the issuance and sale of the Notes the State Treasurer shall cause the proceeds of the sale of the Notes to be credited to the General Fund.

ARTICLE III

THE BOOK-ENTRY-ONLY SYSTEM

Section 3.1: The Notes shall initially be issued in the form of fully registered Notes in book-entry-only form (the "Book-Entry-Only System"), with no Notes being made available to Beneficial Owners thereof, as provided in the Letter of Representations between the State Treasurer and the Depository. So long as the Notes are issued in book-entry-only form, the State shall recognize the Depository or its Nominee as the owner of the Notes for all purposes. Beneficial ownership interests in the Notes will be available through Participants in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. By purchasing a beneficial interest therein, a Beneficial Owner shall be deemed to have waived the right to receive a Certificated Note, except as provided hereinafter. Ownership of the Notes shall be recorded through entries on the books of banks and broker-dealer participants and correspondents (the "Participants") that are related to entries on the Book-Entry-Only System of the Depository. The Notes shall be initially issued in the form of not more than two typewritten Notes (the "Global Notes"). The Global Notes shall be executed by the manual signature of the Governor, countersigned by the manual signature of the State Treasurer, and attested by the manual signature of the Secretary of State. The Global Notes shall be registered in the name of the Nominee and, upon payment therefor in accordance with the terms and conditions of the Purchase Contract, including accrued interest, if any, to delivery, shall be lodged with the Depository until maturity of the Notes. The Escrow Agent shall be the paying agent for the Notes. The Escrow Agent shall remit payment for the principal of and interest on the Notes at maturity, in lawful money of the United States, directly to the Depository, so long as Depository or its Nominee is the registered owner of the Notes, for distribution to the Beneficial Owners of the Notes by recorded entry on the books of the Depository.

Section 3.2: With respect to Notes registered in the name of the Nominee, the State shall have no responsibility to any Participant, or to any Beneficial Owner on behalf of which such Participant acts as agent, with respect to:

- (i) the sending of transaction statements, or maintenance, supervision, or review of records of the Depository;
- (ii) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Notes;
- (iii) the delivery to any Participant, the Beneficial Owners, or any other person of any notice with respect to the Notes;

- (iv) the payment to any Participant, Beneficial Owner, or any other person other than the Depository or its Nominee of any amount with respect to principal of or interest on the Notes;
- (v) any consent given or other action taken by the Depository or its Nominee as owner of the Notes.

Section 3.3: The State shall cause to be paid, by the Escrow Agent, as set forth in the Escrow Agreement, on or before the date of maturity of the Notes, all of the principal of and interest on the Notes to the Nominee, and such payment shall be valid and effective fully to satisfy and discharge the State's obligation to any Participant, Beneficial Owner, or other person with respect to payment thereof to the extent of the sum or sums so paid. Transfer of principal and interest payments on the Notes shall be the responsibility of the Depository and its Participants, and the State shall have no liability therefor.

Section 3.4: Upon delivery by the Depository to the State of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word "Nominee" in this Plan shall be deemed to refer to such new nominee.

Section 3.5: (A) In the event that either the State or the Depository shall determine to discontinue the services as set forth in the Letter of Representations, and the State elects not to designate another qualified securities depository to replace the Depository, then the State will discontinue the use of the Book-Entry-Only System and will cause to be issued Certificated Notes to the Beneficial Owners as Holders of the Notes. The Certificated Notes shall be issued in bearer form in the aggregate principal amount of \$230,000,000, shall be dated as of the date of delivery of the Global Notes, shall mature on June 30, 2005, shall bear interest (which shall include interest accrued during the time the Notes were in book-entry-only form) from their date at the same rate as the Global Note, payable at maturity, and shall be substantially in the form of the Note annexed hereto as Exhibit "C."

(B) Certificated Notes shall be executed by the facsimile signature of the Governor, countersigned by the facsimile signature of the State Treasurer, and attested by the facsimile signature of the Secretary of State. The State Treasurer will designate an Authenticating and Paying Agent for the Certificated Notes. Only such Certificated Notes as shall bear thereon a certificate of authentication in the form set forth on Exhibit "C," manually executed by an authorized officer of the Authenticating and Paying Agent, shall be valid for any purpose. Such certificate of authentication shall be conclusive evidence that the Certificated Notes so authenticated have been duly executed, authenticated, and delivered hereunder and shall be entitled to the benefits of this Plan. The Authenticating and Paying Agent shall be responsible for its representations

contained in the certificate of authentication on the Certificated Notes. The Certificated Notes shall be payable in the manner set forth in Section 2.5 hereinabove.

(C) In the event that Certificated Notes are issued, the State shall cause the Beneficial Owners to be notified of the discontinuance of the Book-Entry-Only System, issuance of Certificated Notes, and the appointment of the Authenticating and Paying Agent, and, within fifteen (15) days of the maturity date of the Notes, cause notice of the payment date and place to be published once in a financial journal published in New York, New York.

ARTICLE IV

COVENANTS

Section 4.1: All income and revenues from the taxes specified in Section 2.3 hereof, collected during the fourth quarter of the Fiscal Year (save and except only those revenues required, pursuant to Section 63-3067, Idaho Code, to be deposited into the "State Refund Account" and, pursuant to Section 63-3638, Idaho Code, to be deposited into the "Sales Tax Refund Tax Account"), shall be deposited into the Note Payment Account as received until such time as the moneys and investment earnings accumulated therein shall be fully sufficient to pay the principal of the Notes, and the interest thereon, at maturity. All moneys in the Note Payment Account shall be invested only in the following investments permitted by Section 67-1210, Idaho Code: (i) direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America or any agency thereof, or (ii) fully collateralized time certificates of deposit or fully collateralized repurchase agreements. No moneys in the Note Payment Account shall be invested in obligations permitted under paragraphs (c), (g), (h), or (k) of Section 67-1210, Idaho Code. All moneys in the Note Payment Account shall be invested so as to mature on or before June 30, 2005. Nothing herein shall be deemed as prohibiting the State Treasurer from depositing any income and revenues from taxes received prior to the fourth quarter of the Fiscal Year or other available revenues into the Note Payment Account. In accordance with the Act, the funds so accumulated in the Note Payment Account are pledged, appropriated, and set aside solely for such purpose. Any moneys remaining in the Note Payment Account after payment in full of all principal of and interest on the Notes at maturity shall be transferred to the General Account of the State.

Section 4.2: In the event that there are not on deposit in the Note Payment Account, on or before June 30, 2005, tax revenues fully sufficient, together with investment earnings earned or to be earned prior to the date of maturity of the Notes, to pay the principal of and interest on the Notes at maturity, then the State Treasurer shall, on or before June 30, 2005, (1) transfer to the Note Payment Account any moneys available, as authorized by Section 67-1212(2)(a), Idaho Code, in an amount sufficient, together with revenues and investment earnings on deposit in the Note Payment Account, to pay the

principal of and interest on the Notes at maturity; or (2) take any or all other legally available actions to cause to be deposited in the Note Payment Account amounts sufficient, together with all other available revenues and investment earnings, to pay the principal of and interest on the Notes at maturity.

Section 4.3: None of the proceeds of the Notes will be (i) loaned to private persons within the meaning of Section 141(c) of the Code, or (ii) used for any private business use within the meaning of Section 141(b) of the Code. For purposes of the preceding sentence, "private persons" means any person or entity (including the federal government) other than a state or local government unit, and "private business use" means use directly or indirectly in a trade or business carried on by any such private person. Accordingly, the Notes will not be "private activity bonds" within the meaning of Section 141 of the Code. The State will take no action which would cause the Notes to become an item of tax preference for alternative minimum tax purposes.

Section 4.4: The State will comply with the provisions of the Code which are necessary for interest paid on the Notes to be exempt from federal income taxation (except for certain minimum taxes on corporations) and will make no use of the proceeds of the Notes that would result in the interest on the Notes being includable in gross income within the meaning of Section 103(a) of the Code, and in particular will take no action which would cause the Notes to become arbitrage bonds within the meaning of Section 148 of the Code. Prior to the issuance of the Notes, the State Treasurer will execute a Tax Certificate with respect to the Notes, and the State will comply with the provisions thereof.

Section 4.5: The State will calculate its actual cumulative cash flow deficit (within the meaning of Code Section 148(f)(4)(B)(iii)(II)) prior to the maturity of the Notes, and will keep accurate records of all investments of the proceeds of the Notes, including earnings on the proceeds of the Notes, and the expenditure thereof. If by a date which is not later than six months after the date on which the Notes are issued, the actual cumulative cash flow deficit has not equaled or exceeded ninety percent (90%) of the proceeds of the Notes, then (i) the State shall account for the investment of the Gross Proceeds (as described in Section 148(f)(6)(B) of the Code and Section 1.148-1(b) of the Treasury Regulations) of the Notes and make the required arbitrage rebate payments to the federal government from the proceeds of the Notes or from any other legally available source (provided, however, that this obligation shall not be construed as constituting a debt or liability of the State within the meaning of any constitutional or statutory limitation upon the incurrence of the indebtedness by the State) at the times, upon the terms and conditions, and in the manner specified in Section 148(f) of the Code and the Treasury Regulations promulgated in connection therewith, and (ii) the State shall keep and retain or cause to be kept and retained, until the date six years after the retirement of the last Note,

adequate records with respect to the Notes and the investment and expenditure of proceeds thereof to comply with the aforementioned arbitrage rebate requirements, including without limitation a complete list of all investments and reinvestments of Gross Proceeds of the Notes including (a) purchase price of such investments, (b) purchase date, (c) type of security or investment, (d) accrued interest paid on the investment (if any), (e) interest rate (if applicable), (f) dated date (if applicable), (g) principal amount, (h) date of maturity, (i) interest payment dates (if applicable), (j) date of liquidation, (k) amounts received upon liquidation of such investments, and (l) the market value of such security or investment on the date it became Gross Proceeds of the Notes and on the date of the retirement of the last Note if then held by the State.

In addition, the State will not enter into any transaction or cause any transaction to be entered into which reduces the amount which may be required to be paid to the federal government pursuant to the arbitrage rebate requirements specified above, because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the yield on the Notes not been relevant to either party.

The State represents that it is legally authorized to pay rebates to the United States as required by Section 148(f) of the Code, and that its expected cumulative cash flow deficit exceeds ninety percent of the proceeds of the Notes.

Section 4.6: The State will comply with the applicable requirements of Rule 15c2-12(b)(5)(i)(C) of the U.S. Securities and Exchange Commission with respect to the disclosure of certain material events with respect to the Notes, and hereby covenants and agrees with and for the benefit of the Holders of the Notes to provide, in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to the state information repository for the State of Idaho, notice of any of the following events with respect to the Notes, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Notes; (7) modifications to rights of Note Holders; (8) Note calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes; and (11) rating changes. Holders of the Notes may enforce specific performance of the foregoing undertakings by any available judicial proceeding; provided, however, that the failure of the State to perform such undertakings shall not constitute an event of default with respect to the Notes, nor shall any such failure render the State liable for monetary damages to any Holder or transferee of the Notes.

ARTICLE V

MISCELLANEOUS

Section 5.1: In connection with the public offering of the Notes by the Underwriter, the use of a Preliminary Official Statement and a final Official Statement is hereby authorized. Pursuant to Securities and Exchange Commission Rule 15c2-12, the State deems the Preliminary Official Statement as final as of its date except for the omission of information dependent upon the pricing of the Notes, such as offering price, interest rate, selling compensation, delivery date, or other terms dependent upon the foregoing matters. The State hereby agrees to deliver or cause to be delivered, within seven (7) business days after any final agreement to purchase the Notes copies of a final Official Statement in sufficient quantity to comply with paragraph (b)(4) of Securities and Exchange Commission Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board.

Section 5.2: Any notices shall be given as follows: If to the State, to: State Treasurer, State Capitol Building, Boise, Idaho 83720; if to the Underwriter, to: Zions First National Bank, One South Main Street 17th Floor, Salt Lake City, Utah 84111; if to the Depository, to: The Depository Trust Company, 55 Water Street, New York, New York 10041; if to the Escrow Agent, to U.S. Bank National Association, Attn: Corporate Trust Department, 15 West South Temple, Suite 200, Salt Lake City, Utah 84101.

Section 5.3: IN WITNESS WHEREOF, I have hereunto subscribed my official signature at Boise, Idaho, as of the 23rd day of June, 2004.

Ron G. Crane
State Treasurer

FILED in the Office of the Governor of the State of Idaho
this 23rd day of June, 2004.

By _____

Office of the Governor

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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FORM OF LEGAL OPINION LETTER